

National Small and Medium Enterprise (SME) Survey Summary Report

Ukraine
2001

Developed and conducted by
BIZPRO

in collaboration with



Kyiv International Institute of Sociology (KIIS)



BIZPRO



**Development Alternatives, Inc.
(DAI)**



**United States Agency
for International Development
(USAID)**

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The findings, interpretations and conclusions in this report are entirely those of the authors
and do not necessarily represent the opinions or views of USAID.

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INTRODUCTION

The BIZPRO project is funded by the United States Agency for International Development (USAID) and implemented by Development Alternatives Inc. (DAI) and its subcontractors. The project is aimed at the development of the SME sector in Ukraine. In order to determine the progress of business development, gauge trends, and identify obstacles to the successful development of businesses, BIZPRO contracted Kyiv International Institute of Sociology (KIIS) to conduct this study.

This report presents the results of a survey of business managers and individual businesspeople in 2001 throughout Ukraine. The first survey of this kind was undertaken in 1999 for USAID/Kyiv. This second study makes possible a comparison of the data, including: the number of business entities, employment level, performance results, overall environment for enterprises, and business development strategy. This report helps to assess the impact of legislation recently adopted in Ukraine, and will serve to identify priorities for continued improvement of current legislation.

For the study, nearly 5,000 business owners and managers were surveyed. In addition, questions from the questionnaire were posed to almost 3,500 households chosen randomly from throughout Ukraine. The survey was conducted from February to July 2001 and was organized and implemented by KIIS.

This summary report was prepared by BIZPRO staff, including: Joe Welsh, Paige Snider, and Tetyana Lawrence. Thomas A. Gray and William B. Whiston, DAI consultants in Washington, and Bohdan Senchuk of IFC/Kyiv made an invaluable contribution to preparation of the report. Volodymyr Paniotto and Olena Popova did outstanding work leading the research group of KIIS, which organized fieldwork and data collection and processing, as well as primary data analysis and the initial written report.

This report has been produced in both the English and Ukrainian languages, however, the English version will take precedence in the event of any ambiguity.

Terms used throughout this report have the following meanings:

- The terms *enterprise*, *company*, and *firm* used interchangeably;
- Respondents were divided into four categories depending on the number of employees:
 - Individuals/zero employee firm (or self-employed)
 - Small businesses, with 1 to 50 employees
 - Medium-sized firms, with 51 to 250 employees
 - Large companies, with more than 251 employees
- For a deeper analysis, the small business category was split into three subgroups by number of employees: 1 to 5 employees, 6 to 10, and 11 to 50 employees.
- For purposes of this survey, state-owned businesses were recognized as those in which the state has a greater than 50% share.

Copies of this summary report, and the full-length research report, may be obtained in both languages from the BIZPRO office or website at the following address:

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EXECUTIVE SUMMARY

The important overall conclusion from a comparison of the 1999 and 2001 surveys is that overall conditions for doing business in Ukraine were better in 2001 than in 1999. Many indicators demonstrate marked improvements, which led to a more effective and productive economy. Other indicators provide evidence of the steps taken by the government to deregulate business activity. As would be expected, however, some problems in the economy persist and require appropriate steps to be taken by the government and business community, individually and jointly, to improve the competitiveness of Ukrainian businesses.

Number of self-employed individuals and businesses

According to the survey, the private sector in Ukraine in 2001 consisted of:

- 1,654,000 self-employed individuals (zero-employee businesses)
- 591,000 small businesses
- 32,000 medium businesses
- 9,000 large businesses

These figures represent significant changes in the period between 1999 and 2001:

- Zero-employee businesses declined by 32% (from 2,182,000 to 1,654,000).
- Small businesses grew by 31% (from 451,000 in 1999 to 591,000 in 2001).
- Medium companies decreased by 19% (from 38,000 to 32,000).
- Large firms decreased by 22% (from 11,000 to 9,000).

Number of employed

The decrease in the number of medium and large firms resulted in the loss of jobs – however, at the same time Ukraine witnessed dynamic growth in small businesses employment that offset the job losses from medium and large firms. As a result, in the period between 1999 and 2001, the following changes in the number of people employed are observed:

- Small firms gained 1,273,000 employees.
- Medium firms lost 634,000 employees.
- Large firms lost 607,000 employees.

Distribution of employed by sector

As might be expected, the manufacturing sector accounts for 62% of the overall employment in large businesses. Small firms tend to dominate in terms of employment in the trade and services sectors. Medium businesses have a more even distribution of jobs between sectors, with a significant portion concentrated in construction, manufacturing and agribusiness, trade, and services.

Financial Performance

The survey data demonstrate positive changes in sales. Thus, in 2001, the percentage of firms reporting a growth in sales increased compared to 1999:

- for small firms – from 13% to 22%
- for medium firms – from 22% to 34%
- for large businesses – from 25% to 43%.

Small and large private firms demonstrate a slightly higher level of expectation for improvement in their sales volume during the next six months, as compared to small and large state-owned firms:

- small private – 10.1% vs. small state – 5.9%
- large private – 36.3% vs. large state – 33.6%

Despite a notable growth in sales, few businesses reported growth in net profits. One third of the respondents said their net profits declined, and another 40% reported no change. The bigger the firm, the more likely they were to report a growth in net profits:

- 17% of small firms
- 22 % of medium businesses
- 26% of large companies.

EXECUTIVE SUMMARY

Barter Transactions

One of the major findings of the survey is that Ukrainian businesses are less likely to use barter for purchases (inputs, raw material and equipment) and sales of goods and services than previously. Even those who did use barter transactions in 2001 purchased or sold through barter less than 10% on average.

The survey data also demonstrate that the respondents were not likely to use payments in-kind to pay or partially pay workers. Particularly, in 2001, the proportion of businesses that did not use payment in-kind grew, compared to 1999 figures:

- from 86% to 91% small businesses
- from 59% to 77% medium firms
- from 47% to 77% large companies.

Smaller firms, which had a better record in 1999 than larger firms, continued to pay fewer workers in-kind in 2001. Whilst only 7% of small firms reported paying their workers in-kind in 2001, medium and large businesses continued to make in-kind payments at the rate of 22% and 23% respectively.

Wage Arrears

Approximately 60% of small firms, 36% of medium firms, and 29% of large firms reported paying their workers on a timely basis in 1999. In 2001, the situation improved notably: 74% of small, 55% of medium, and 54% of large businesses reported they had no delays in wage payment. In addition, the number of businesses reporting that they were from four to twelve months in arrears has fallen. The portion of businesses from four to twelve months in arrears changed as follows:

- Small firms from 13% to 7%
- Medium firms from 28% to 13%
- Large firms from 34% to 14%

Medium and large businesses still account for the bulk of wage arrears.

Export

According to the survey results, in 2001, small and medium businesses were not likely to export their product and services. Only 5% of small and 15% of medium firms were engaged in export – which is consistent with 1999. Large firms perform better in terms of export. The portion of large enterprises reporting that they were involved in export activity is about 40%. Such activity grew from 29% in 1999 to 39% in 2001.

The share of sales exported to Russia and other CIS states is significant:

- 66% of small businesses engaged in export.
- 73% of medium and large firms engaged in export.

However, the number of businesses that used to export more than 70% of output to the Russian market continues to decrease, which suggests that such exporters have more diversified export relations.

Investment

Businesses were more likely to invest in production capacity in 2001 than they were in 1999. In 1999, an average 43% of businesses made such investments, while 55% did so in 2001 including: nearly half of small firms, almost 60% of medium firms, and 70% of large businesses. The most frequently reported form of investment in 2001, especially for large businesses, was the purchase of production equipment (74%) followed by capital repair of premises and buildings (60%). The survey also revealed a clear growth trend among self-employed businessmen undertaking refurbishment of premises and buildings. While this portion was only 18% in 1999, it grew to 37% in 2001.

Trade Credit

Two-thirds of respondents said they were given 30 days to pay for goods provided on credit. This is a notable increase compared to 1999:

- For large businesses from 51 to 67%
- For medium firms from 48 to 69%
- For small firms from 55 to 68%.

The portion of firms that reported in 2001 that they received 60 days credit grew when compared to 1999, however, the number of those who were given credit for a longer period than 90 days declined.

Business Registration

The results of the survey show that the business registration process has become less of a burden compared to other regulatory procedures, particularly obtaining licenses, permits, and approvals.

The majority of respondents registering their businesses in 2000–2001 reported that they did not use an agent or a consultant to assist with the registration. Most firms indicate that they had almost all of the information they needed in order to register in an efficient manner, although self-employed and small businesses were slightly less likely to have enough information: only slightly more than half of them had all necessary information to complete registration.

In 2001, it took Ukrainian businesses eight calendar days on average to obtain a Certificate of State Business Registration. It is important to note that the length of time it takes to obtain the certificate tends to depend on the size of the firm:

- Self-employed – 4 calendar days
- small – 7 calendar days
- medium – 11 calendar days
- large – 9 calendar days

Licensing

According to the survey, the majority of respondents are involved in activities not subject to licensing. Thus, a considerable portion of respondents indicated that in 2001 they:

- | | |
|------------------------|--------------------------|
| (a) had no license | (b) had only one license |
| • 83% of self-employed | • 14% of self-employed |
| • 55% of small firms | • 29% of small firms |
| • 36% of medium firms | • 33% of medium firms |
| • 39% of large firms | • 25% of large firms |

According to the survey, the average duration of the licensing process in Ukraine is 24 calendar days (17 working days). The average time the survey respondents take to obtain licenses is only one working day longer than the minimum number of days provided for by the statutory licensing procedure.

Inspections by Government Agencies

The average number of inspections during the six months preceding the survey declined from 10.6 in 1999 to 7.8 inspections in 2001. The number of inspections tends to increase in proportion to the employment of the business:

- Small firms – 6 inspections on average
- Medium firms – 9 inspections
- Large enterprises – 15 inspections

Access to Financial Resources

One in five businesses, on average, attempted to obtain credit or a loan during the six months preceding the survey. High interest rates and burdensome collateral requirements were two major reasons for which businesses did not approach financial institutions for loans.

However, the number of businesses (from among those actively seeking loans) that succeeded in obtaining a loan or credit almost doubled between 1999 and 2001:

- Large enterprises from 17 to 36%
- Medium firms from 11 to 18%
- Small firms from 5 to 9%

EXECUTIVE SUMMARY

Activities to Improve Efficiency

One-fourth of the surveyed small businesses, half of the medium, and 67% of the large firms have fully developed business plans. An even smaller portion of firms prepared marketing plans:

- 14 % of small
- 28% of medium
- 43% of large companies

An alarming symptom is that in 2001, the proportion of enterprises conducting market research, applying for financial resources, and the using expertise of outsourced consultants, declined compared to 1999.

Staff Training

In 2001 an insignificant portion of respondents sought to improve their business management practices through various training programs and business consultations. Only 3% of small, 10% of medium, and 15% of large companies reported receiving training for a variety of aspects of running and managing a business. Even though the proportion of firms that arranged business training for staff was negligible, there is a positive growth tendency for both large and medium companies, whereas small firms were less likely to seek out training for staff in 2001.

Membership in Business Associations

An insignificant portion of enterprises reported membership in business associations on the local, regional, or national levels. The highest percentage is found among large businesses; 6.6% of them are members of oblast associations, and 6.2% belong to national-level associations. Naturally, medium and larger businesses are more likely to belong to some sort of association, but the great majority of these businesses, more than 80%, indicate that they are not active in any association.

Fifty-four percent of small businesses and about 40% of medium and large firms believed that 'it was not yet necessary' to belong to a business association.

Internet Use

Forty percent of all respondents in 2001 used opportunities provided by Internet in their business operations. Of those, over 70% reported that they used the Internet daily or several times a week. The majority of businesses with access to the global network are most likely to use it for e-mail purposes and search for specialized information.

DEMOGRAPHICS OF UKRAINIAN BUSINESSES

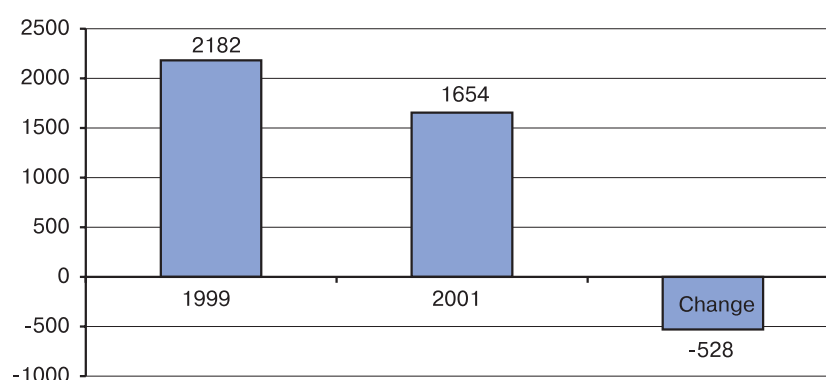
The survey shows that the structure of Ukraine's economy is rapidly moving away from an outdated socialist model, overwhelmingly dominated by large businesses, to a mixed structure with a fast growing small business sector. This growth in small business offsets the reduction of employment by medium and large businesses and, for the most part, is comparable to the size and employment distribution of firms found in most developed countries.

The growing number of small firms and the increase in the overall employment by the small business sector confirms that the Ukrainian economy is becoming more efficient. Businesses emerge, develop, and collapse according to signals given by consumers in the market. The needs and priorities of consumers should determine the ultimate distribution of businesses by size and sector through competition. Competition between businesses trying to satisfy consumer demand is sufficient to give rise to the most effective and efficient economic structure. This is the key difference between the free market and socialist models, where the structure of the economy was heavily impacted by political fiat and administrative systems for the distribution of goods and services. Different sections of this report will discuss the extent to which government policy and practices have succeed in improving functions of the market.

A. NUMBER OF SELF-EMPLOYED ENTREPRENEURS AND BUSINESSES

Projected data regarding the number of zero employee businesses¹ in 1999 and 2001 shows the change in their number (see Figure 1.1).

Figure 1.1 Number of Zero-Employee Firms in Ukraine, 1999 and 2001 (thousands)



According to calculations, the number of zero-employee businesses in Ukraine declined by 32% between 1999 and 2001 (from 2,182,000 to 1,654,000). Some zero employee businesses may have started up new businesses, some may have failed to receive income from business activity and left the market having joined the unemployed category. Others may have given up self-employment if they or a member of their family found productive employment in Ukraine or abroad.

In contrast, the number of firms increased by 31% in all small business size categories (between 1 and 50 employees) between 1999 and 2001 (from 451,000 to 591,000). The number of medium and large firms declined by 19% and 22% respectively, totaling 32,000 and 9,000. As may be seen in Figure 1.2, the bulk of growth occurred in small businesses. This may be due to the enactment of the Decree of the President of Ukraine "On the Simplified System for Accounting Reporting and Taxation of Small Businesses" (#746/99 dated June 28, 1999)², which enabled entrepreneurs to pay a unified tax. Some medium business may have restructured to be eligible for legislation applicable to small businesses. Some medium and large firms have disappeared due to mergers or through acquisition by another firm or as a result of reorganization. Other firms have shut down because they cannot compete with other Ukrainian or foreign firms.

¹ A firm with an owner but no employees, or an individual businessperson who has not created a legal entity.

² The simplified accounting, reporting and taxation system has been introduced for the following small business categories:

- Natural persons who engage in business operations without creating a legal entity; who within a year maintain labor relations with no more than 10 employees (including family members); and who have annual revenues from the sale of goods (works and services) no more than UAH 500,000;
- Legal entities irrespective of their legal form of business and form of ownership with the average annual number of employees not exceeding 50 persons and annual revenues from the sale of goods (works and services) not exceeding UAH 1,000,000.

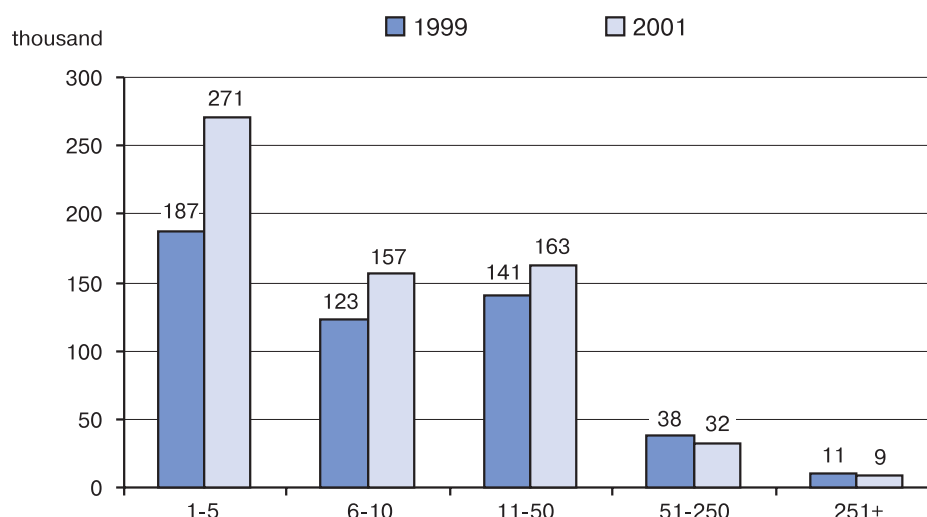
Figure 1.2. Number of Businesses in Ukraine, 1999 and 2001

Table 1.3 presents the distribution of businesses by size and industry. In both the medium and large categories, the largest number of businesses is found in Manufacturing and Agribusiness. Very few medium and large businesses are in Public Catering, Finance, Insurance, and Real Estate. The majority of small businesses work in the Trade and Service sectors.

Table 1.3. Projected Number of Self-employed individuals and Enterprises, by Firm Size and Industry, 2001 (thousands)

Industry	Self-employed ³	FIRM SIZE						
		Small				Medium	Large	TOTAL All Sizes
		1-5	6-10	11-50	Total Small			
Construction	104.2	15.0	12.6	20.6	48.3	6.5	1.8	56.6
Manufacturing & Agribusiness	69.5	22.4	18.7	25.5	66.6	9.9	4.9	81.4
Transportation & Communication	66.2	9.3	6.4	6.9	22.5	3.0	1.2	26.8
Trade	661.8	117.0	57.5	50.3	224.8	4.5	1.3	230.6
Public Catering	38.1	8.9	7.3	8.3	24.5	0.6	0.08	25.2
Finance, Insurance and Real Estate	6.6	8.2	4.8	3.6	16.6	0.6	0.2	17.4
Services	711.4	89.0	49.3	49.0	187.3	6.9	1.0	195.2
Total⁴	1,657.8	269.7	156.7	164.2	590.6	32.0	10.4	633.0

B. NUMBER OF EMPLOYED

As can be seen below, employment growth between 1999 and 2001 can be found only among small businesses. Indeed, Table 1.4 below shows that employment growth generated by small businesses (+1,273) offsets the drop in employment from medium and large businesses (−1,241). Both self-employed and medium/large businesses experienced a drop in employment. Between 1999 and 2001, employment in medium and large business fell by 634,000 and 607,000, respectively. This may be attributed to the continuing efforts to improve productivity per worker by eliminating unnecessary jobs⁵. Additionally, the number of self-employed decreased by 528,000. As mentioned previously, this may be explained by self-employed entrepreneurs taking on employees, or by a decrease in the number of individuals engaged in ‘self-employed’ activity for subsistence purposes. In sum, employment growth by small firms such that it absorbs employment loss from medium/large firms is a positive sign for the Ukrainian economy.

³ Meaning “individual entrepreneurs without creation of legal entities”.

⁴ The totals in the row at the bottom of this Table are similar to but not identical to the totals shown in Figure 2, above. The projections by industry are done slightly differently as can be seen in Appendix Methodology of Projected Estimates

⁵ IFC Survey Report “Businesses in Ukraine in 2000”, pp.24-25, Kyiv, 2001

Table 1.4. Projected Employment by Employment Size of Firm, 1999 and 2001 (thousands)

Projected Employment	Self-employed	EMPLOYMENT SIZE OF BUSINESS						TOTAL
		Small				Medium	Large	
		1-5	6-10	11-50	Total Small			
1999	2,182	625	1,001	3,648	5,274	4,698	9,814	21,969
2001	1,654	925	1,280	4,342	6,547	4,064	9,207	21,473

The survey showed that larger businesses expanded sales more rapidly than small or medium businesses, but higher productivity in larger businesses kept employment growth from matching output growth. Smaller businesses grew in terms of employment, even though small business sales did not expand as rapidly as in larger businesses. This may be partially explained by many smaller businesses adopting technology that is more labor intensive than the capital-intensive production techniques adopted by large firms. Businesses do not work effectively unless the products or services they produce are competitive in the marketplace. To encourage growth, government policy should focus on three major goals: making and keeping markets open and competitive, taking steps to reduce bureaucratic burdens and corruption, and increasing management capability in all firms.

C. DISTRIBUTION OF EMPLOYMENT BY INDUSTRY

The survey demonstrates that the majority of jobs in small business were in trade and services. Medium businesses have a more even distribution of jobs by sectors, with the majority of jobs concentrated in the sectors of construction, manufacturing and agribusiness, trade, and services. And 62% of the employment in large businesses is concentrated in manufacturing. The distribution of employment in Ukraine differs significantly from the employment structure in Western Europe, USA, and Canada and other service-sector dominated economies where construction, manufacturing and agribusiness account for a smaller proportion of jobs.

Table 1.5. Projected Employment by Industries, 2001 (thousands)

Industry	Self-employed	FIRM SIZE						
		Small				Medium	Large	TOTAL
		1-5	6-10	11-50	Total Small			
Construction	104.2	48.1	104.9	607.9	761.0	837.3	1,160.1	2,862.6
Manufacturing & Agribusiness	69.5	80.5	153.6	742.6	976.6	1,386.0	5,699.3	8,131.4
Transportation & Communication	66.2	34.2	48.6	191.1	273.9	410.5	773.4	1,524.0
Trade	661.8	397.8	465.8	1,207.2	2,070.8	504.0	644.5	3,881.1
Public Catering	38.1	34.2	57.6	199.8	291.6	61.0	46.0	436.6
Finance, Insurance and Real Estate	6.6	28.7	38.4	104.2	171.3	69.1	184.1	431.1
Services	711.4	302.5	409.5	1,289.7	2,001.7	796.6	699.8	4,209.5
Total	1,657.8	926.0	1,278.5	4,342.5	6,546.9	4,064.5	9,207.3	21,476.4

Comparison of the distribution of employment by firm size and industries in 1999 and 2001 helps to clarify the changes in the employment structures of the economy (*see Table 1.6*). Larger businesses in the manufacturing sector, for example, have increased their share of overall employment from 57% to 62%. This does not mean that the absolute employment in manufacturing has increased, because the overall number of jobs in the large business sector decreased.

A similar analysis could be undertaken for zero employee firms. A significant decrease in employment share is observed in manufacturing and agribusiness, and in trade; however, an increase in employment may be found in the services sector. Insignificant changes occurred in the small business sector: the portion of employment in manufacturing and agribusiness decreased by 1% and in trade by 2.5%; however, it increased in services by 2%.⁶

⁶ The appendix presents the a more detailed distribution of jobs by firm size and sector in 1999 and 2001.

Table 1.6. Percentage of Employment by Industry and Firm Size, 1999 and 2001

Industry	Year	Self-Employed	FIRM SIZE		
			Small	Medium	Large
Construction	1999	8.8	9.9	22.5	11.1
	2001	6.4	10.0	20.6	12.6
Manufacturing & Agribusiness	1999	14.0	14.1	30.8	56.9
	2001	4.2	13.4	34.2	61.9
Transport and Communication	1999	5.2	3.4	7.8	12.3
	2001	4.0	4.0	10.1	8.4
Trade	1999	47.0	36.9	12.2	6.7
	2001	39.9	34.4	12.3	7.0
Public Catering	1999	1.0	4.5	2.5	0.1
	2001	2.3	4.3	1.5	1.5
Finance, Insurance, Real Estate	1999	1.0	1.9	1.6	2.1
	2001	0.4	2.8	1.7	2.0
Services	1999	23.0	29.2	22.6	11.0
	2001	42.9	31.2	19.6	7.6

Data from the table below (*see Table 1.7*) demonstrate changes in employment that occurred between 1999 and 2001 by sectors for all business size categories.

Table 1.7. Changes in Employment by Firm Size and Industry, 1999 and 2001 (thousands)

Industry	Self-employed	FIRM SIZE						
		Small				Medium	Large	TOTAL
		1-5	6-10	11-50	Total Small			
Construction	-100.902	9.692	10.729	98.314	118.735	-265.622	42.787	-205.002
Manufacturing & Agribusiness	-256.861	-7.798	30.122	129.472	151.796	-132.383	82.455	-154.974
Transportation & Communication	-55.036	7.272	25.890	49.291	82.453	24.742	-464.712	-412.551
Trade	-433.807	94.530	62.999	7.849	165.378	-94.442	-29.916	-392.786
Public Catering	14.742	14.011	2.362	4.331	20.704	-62.677	35.970	8.740
Finance, Insurance and Real Estate	-16.693	14.526	17.818	39.078	71.422	-10.036	-27.241	17.451
Services	326.805	168.391	126.888	362.423	657.702	-88.654	-246.455	649.389
Total	-521.752	300.624	276.808	690.751	1.268.183	-629.053	-607.111	-489.733

Therefore, the growth in small business employment in Ukraine can be observed. This dynamic should provide a convincing argument to further promote small business through the improvement and simplification of registration and licensing processes, taxation, and better access to financial resources.

PERFORMANCE RESULTS

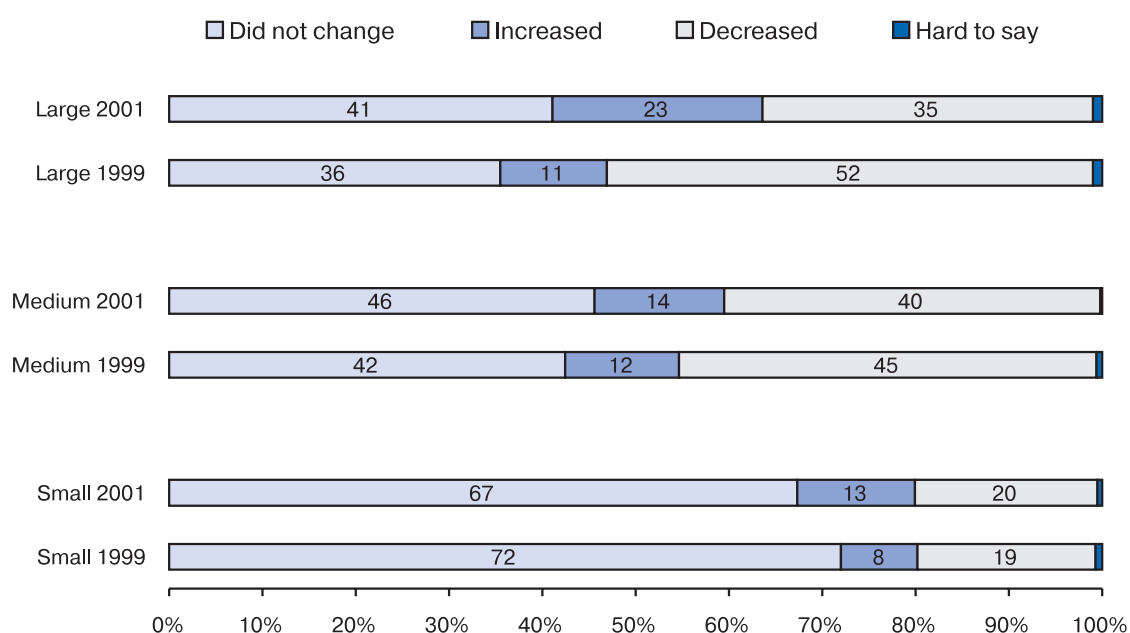
This section analyzes findings regarding efficient use of labor resources and effectiveness of business operations in 1999 and 2001, based on financial performance results, attraction of additional capital and financial resources, and business export capacity.

A. EMPLOYMENT IN UKRAINIAN BUSINESSES

Dynamics of Employment during Six Months Prior to the Survey

One in three large enterprises in 2001 reported that they laid off workers during the six months prior to the survey, compared to one in two large enterprises in 1999. The percentage of large businesses that increased the number of employees during those six months has more than doubled, from 11 to 23%. Neither small nor medium firms reported any significant change during this six-month period (*see Figure 2.1*).

Figure 2.1. Change in Employment, six months prior to the survey, by firm size (percentage)



More details on the change in small businesses employment are presented (*see Table 2.2*) below.

Table 2.2. Employment Change of Small Firms in Six Months Prior to the Survey (percentage)

Employment Dynamics	YEAR	Number of employees		
		1-5	6-10	11-50
Decreased	1999	17.1	19.5	30.1
	2001	15.7	15.6	24.2
Increased	1999	5.7	10.6	13.3
	2001	4.7	14.5	16.2
Did not change	1999	77.0	69.8	56.4
	2001	79.0	69.4	59.2

Twenty-four percent of businesses with employees numbering from 11 to 50 reported a decrease in employment in 2001, compared to 30% in 1999. A similar trend was observed in the 6 to 10 employees size category. For the smallest businesses with employees numbering up to 5, no significant change was reported.

Distribution by regions may be seen below (*see Table 2.3*).

PERFORMANCE RESULTS

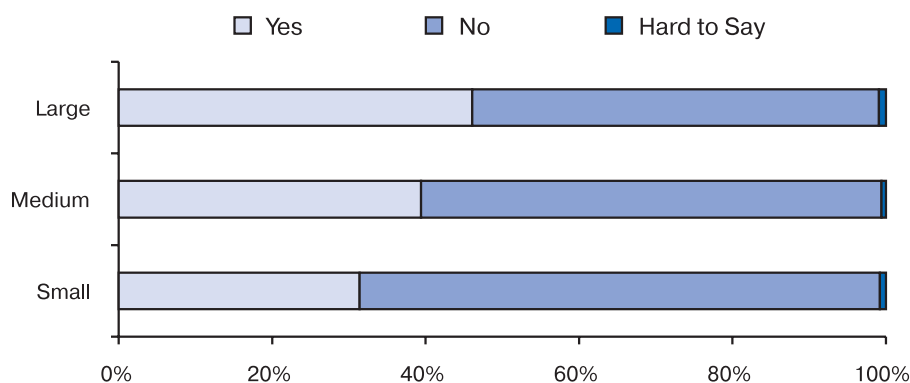
Table 2.3. Percent of Businesses Reporting Employment Growth, Six Months Prior to the Survey, 2001.

	Small	Medium	Large
Crimea	14.8	21.1	28.0
Kyiv City	14.4	19.4	29.3
Kyiv oblast	9.1	6.7	38.5
Vinnytsia	24.2	15.6	22.2
Volyn	15.0	45.0	20.0
Dnipropetrovsk	9.4	15.1	19.8
Donetsk	12.2	14.8	21.8
Zhytomyr	10.0	23.3	26.9
Zakarpattia	10.4	—	33.3
Zaporizhzhya	21.7	13.5	24.5
Ivano-Frankivsk	21.7	10.3	28.0
Kirovohrad	5.7	12.5	27.8
Luhansk	10.6	11.9	19.0
Lviv	7.5	4.8	16.7
Mykolayiv	14.9	17.2	23.5
Odessa	8.9	14.0	20.0
Poltava	4.0	18.4	16.7
Rivne	12.3	10.0	41.7
Sumy	13.6	4.2	17.2
Ternopil	1.7	—	15.4
Kharkiv	13.5	5.7	26.6
Kherson	7.8	3.6	16.7
Khmelnitsky	15.7	10.3	15.0
Cherkasy	19.3	17.1	20.0
Chernitsi	15.4	7.7	22.2
Chernihiv	18.2	25.9	18.2
AVERAGE	12.6	13.9	22.5

As can be seen, the largest number of enterprises reporting an increase in employment is concentrated in Kyiv, Vinnytsia, Volyn, Zhytomyr, Zakarpattia, Zaporizhzhya, Ivano-Frankivsk, Rivne, Chernivtsi and Chernihiv oblasts.

As was noted earlier, a significant number of businesses laid off employees. Of those, almost 30% of small, 40% of medium, and 45% of large firms indicated that the number of employees decreased as a result of steps management had taken to intentionally reduce the size of the work force. In addition, over half of businesses of all sizes reported that their numbers of employees decreased due to attrition or retirement, or when employees found jobs in other companies, and not as a result of planned steps to cut off employees. (see Figure 2.4 below.)

Figure 2.4. Was the Decrease in Employment Deliberately Undertaken by Management, 2001 (percentage)



Part-time Employment By Industry

According to the survey, the percentage of employees working part-time in 1999 was 20%, whereas in 2001, this number decreased to 13%. Distribution by industry and firm sizes is presented in the table below (see Table 2.5).

Table 2.5. Percent of Part-time employees, by Industry and Size of Firms

Industry	FIRM SIZE					
	Small				Medium	Large
	1-5	6-10	11-50	Average		
Construction	26.5	13.8	12.9	15.0	7.6	7.5
Manufacturing and Agribusiness	25.6	12.4	13.7	15.5	15.8	9.9
Transport and communication	13.6	15.5	20.5	17.4	21.4	8.3
Trade	16.5	7.5	7.9	10.8	7.6	7.3
Public Catering	6.9	9.6	10.3	9.1	16.6	—
Finance, Insurance and Real Estate	24.2	4.9	2.9	10.3	1.1	12.4
Services	28.9	20.4	14.7	20.5	13.0	5.3
TOTAL	15.0				12.8	9.0
TOTAL FOR ALL	13.3					

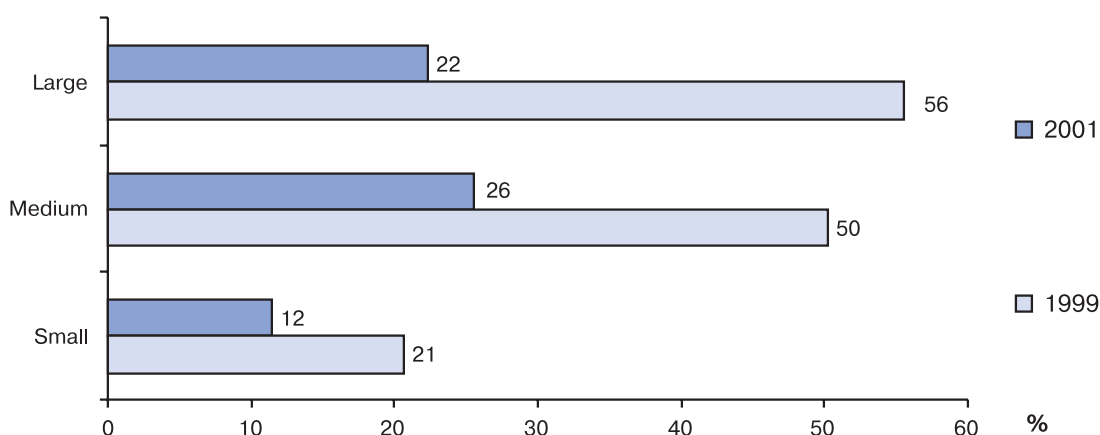
The percentage of workers employed part-time is smaller for larger businesses (9%). This may be clearly seen in the construction, trade, and services sectors. Medium firms in manufacturing and agribusiness, transport and communication, and in public catering employ more employees on a part-time basis when compared to small businesses in the same sectors.

Workers on Unpaid Leave

The business practice of placing some employees on extended unpaid leave is one issue that obscures the full impact of job reduction. For all intents and purposes, experience suggests this is tantamount to dismissal and it is unlikely that these workers will ever be put back on the active payroll. Encouragingly, the percentage of firms that placed employees on unpaid leave in 2001 has decreased compared to 1999:

- For small businesses from 21 to 12%
- For medium from 50 to 26%
- For large companies from 56 to 22% (see Figure 2.6) below

Figure 2.6. Percent of Firms Putting Employees on Unpaid Leave, 1999 and 2001 (percentage)



We can further disaggregate the responses of small businesses into small size categories – those with 1-5 employees, 6-10 employees, and 11-50 employees (see Table 2.7).

Table 2.7. Small Businesses and Unpaid Leave, 1999 and 2001 (percent)

	YEAR	Number of employees		
		1-5	6-10	11-50
Yes	1999	13.5	23.0	33.8
	2001	6.8	8.9	15.7
No	1999	84.7	76.4	65.3
	2001	92.8	90.2	83.9
Hard to say	1999	1.8	0.6	0.8
	2001	0.4	0.9	0.3

As may be seen from the table, nearly 16% of businesses in the 11-50 employee size category sent their work force on unpaid leave. This figure fell by more than 50% compared to 1999.

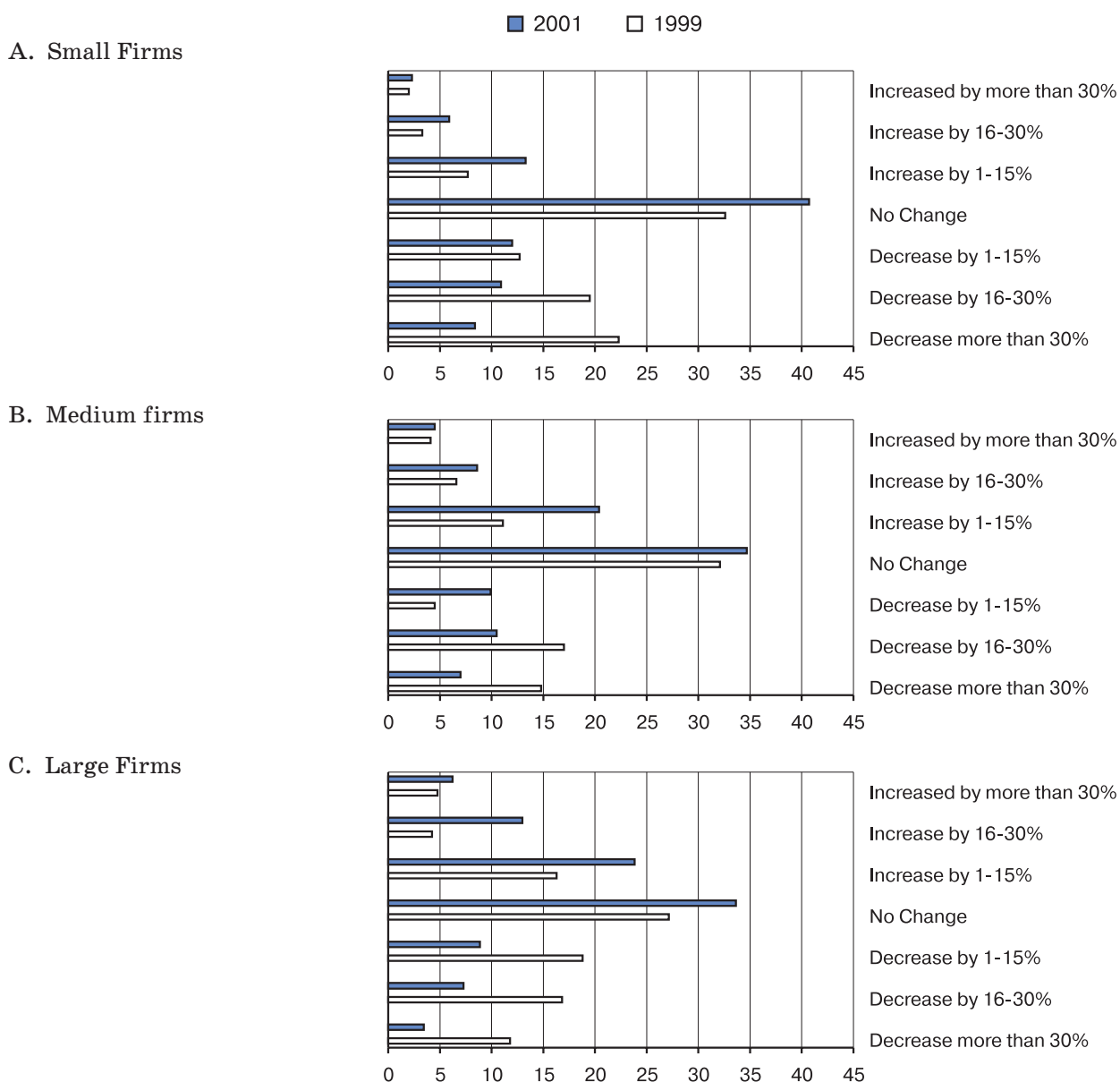
B. FINANCIAL PERFORMANCE

Sales

The survey indicates positive changes in sales volume (*see Figure 2.8*) as the percentage of those reporting an increase in sales in 2001 has increased compared to 1999:

- For small firms from 13 to 22%
- For medium companies from 22 to 34%
- For large companies from 25 to 43%

Figure 2.8. Percentage Change in Sales, Six Months Prior to the Survey, 1999 and 2001

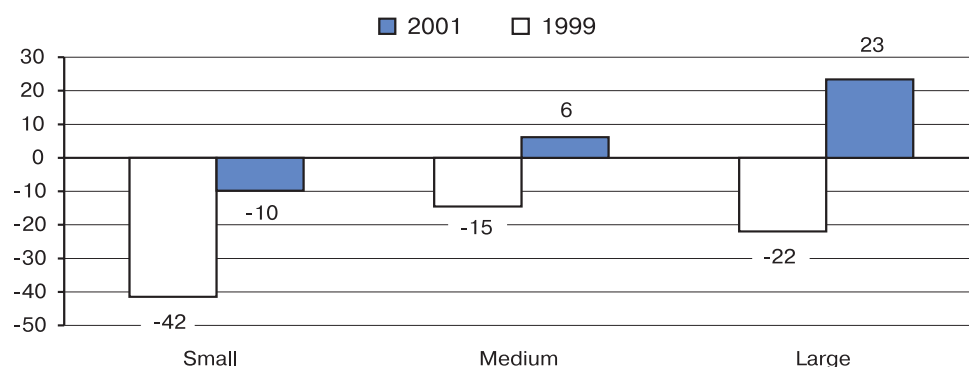


Thus, in 2001 more respondents reported an increase in sales than in 1999. The exception was for medium businesses which reported drop in sales of 15% (*see Figure 2.8B*).

The conclusion is even more convincing when you construct an index of sales change¹ (*see Figure 2.9*).

¹ This index is derived by adding the percentages of firms reporting declines in sales, adding the percentages of firms reporting increasing sales, and subtracting the percentage reporting losses from the percentage reporting gains. Those firms reporting no change in sales are excluded in the index.

Figure 2.9. Sales Index for the Previous Six Months, by Firm Size, 1999 and 2001

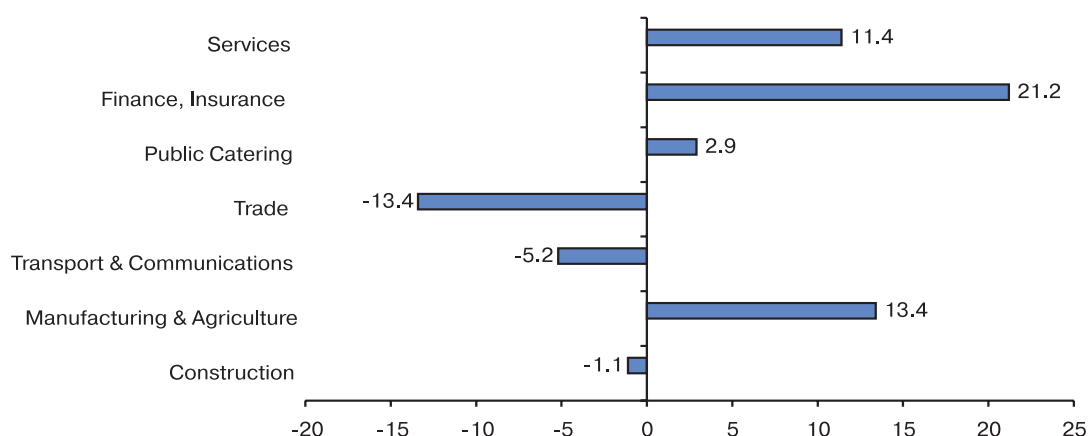


As can be seen from the above figure, changes in the sales index show an improvement in business performance results. This is especially true for large businesses, which show the largest gain, improving from -22.0 to 23.4 points. In sum, there were many more businesses whose sales increased in 2001 than in 1999.

Distribution by Industry

A positive change in sales index can be seen in most industries. The most positive sales indices are found in Manufacturing and Agriculture, Finance, Insurance, and Real Estate. The lowest indices are in Trade and Transport & Communication (see Figure 2.10).

Figure 2.10. Sales Index for the Previous Six Months, by Industry, 2001

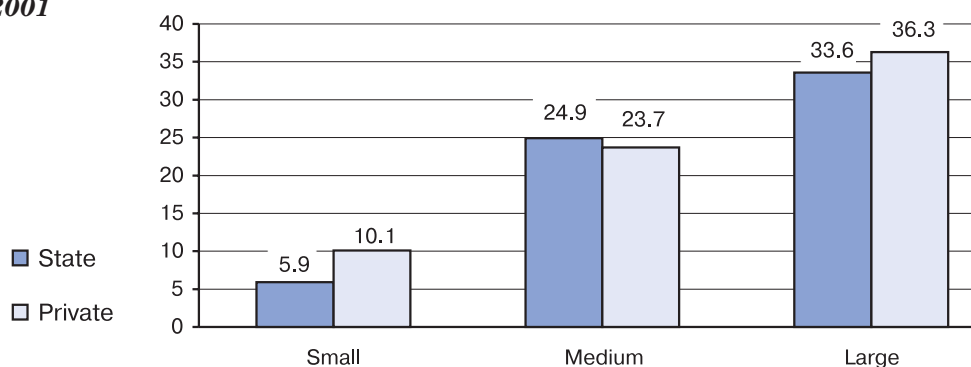


Expected Changes

Figure 2.11 shows that both small and large private firms have higher expectations for sales growth during the next six months than do state-owned firms of similar size:

- Small private – 10.1%, vs. 5.9% for state-owned
- Large private – 36.3%, vs. 33.6% for state-owned

Figure 2.11. Sales Index for Firms Predicting the Expected Change in Sales During the Next Six Months, by Firm Size, 2001



PERFORMANCE RESULTS

The most important finding from the comparison of expected sales indices is that all of the indices are positive – whether for state or private firms, or for all size groups.

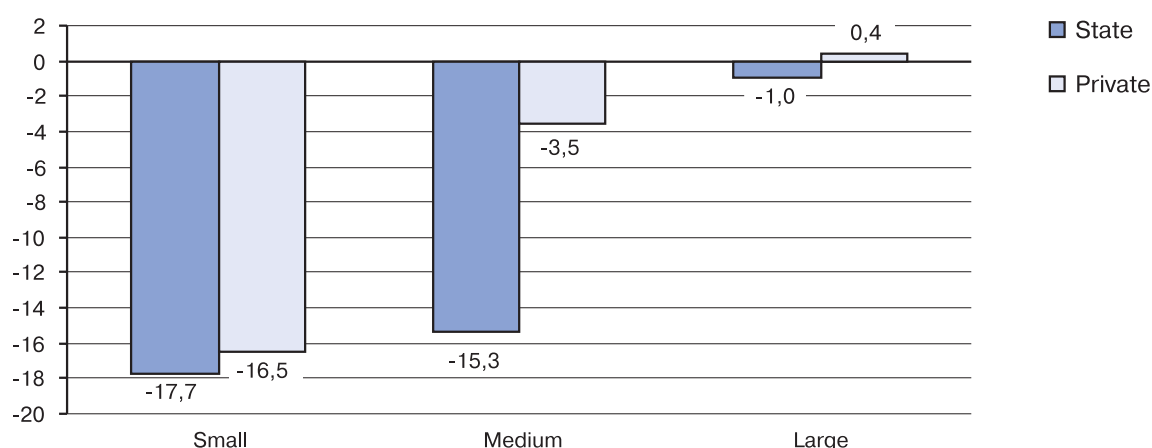
It appears that owners and managers of most firms almost always believe that they will do better than the typical firm in the market. This probably reflects an informational asymmetry: Owners and managers are more confident in predicting the future for their own company than for the market, even though experience shows that they are frequently incorrect in their projections for their firm or for the whole market.

Profits²

Despite a significant increase in sales reported by respondents, only a small portion of businesses indicated the growth of net profits. This is a discouraging finding for most businesses because net profits are needed to build retained earnings and, ultimately, to finance investments in new or better equipment and production facilities. Larger businesses, both state and private, did much better than either small or medium businesses (see Figure 2.12).

Respondents were asked to identify the major factors that caused either positive or negative changes. Factors that negatively affected the level of profitability included changes in sales (mentioned by almost half of respondents), change of prices for inputs and raw material (every fifth respondent), and level of taxation and usual seasonal fluctuations (one respondent in ten).

Figure 2.12. Change in Net Profits Index for the Previous Six Months,³ By Firm Size, 2001



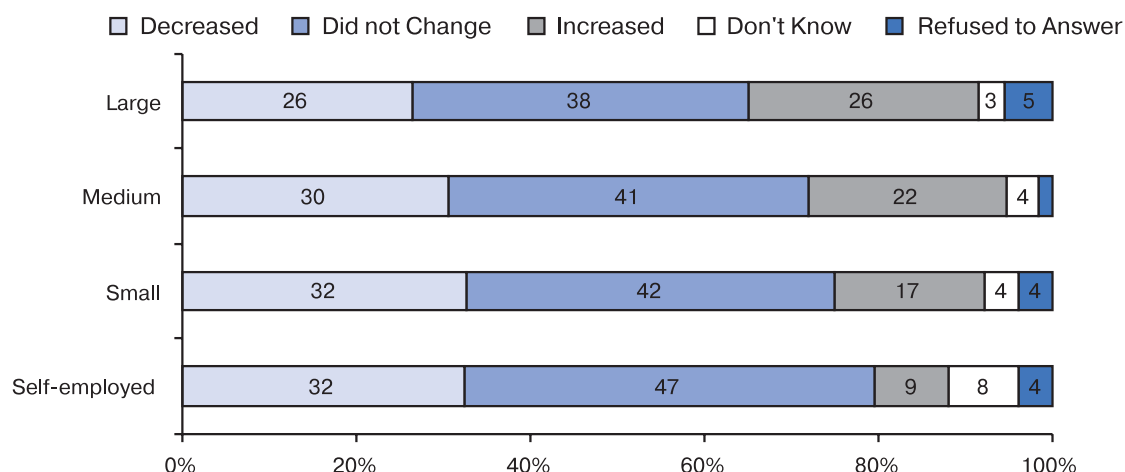
Whereas the previous figure showed a change in the net sales index, Figure 2.13 demonstrates a change in net profit during six months prior to the survey. One third of the respondents specified a decline of net profit. At the same time, about 40% of the respondents stated no changes. The larger the firm, the higher the percentage of firms that state an increase in net profit:

- 17% of small firms
- 22% of medium firms
- 26% of large firms.

² Respondents reluctantly provided data on their sales and profit figures.

³ This index was calculated similarly to sales index.

Figure 2.13. Percent of Businesses Reporting Change in Net Profit during Six Months prior to the Survey, 2001



Regional distribution of responses regarding the growth of net profit is presented below (see Table 2.14).

Table 2.14. Percent of Businesses Reporting Growth of Net Profit, 2001

Oblasts	Self-employed	Small	Medium	Large
Crimea	9.4	14.8	27.6	32.0
Kyiv City	0.0	17.5	23.8	47.4
Kyiv oblast	11.8	6.1	13.3	53.8
Vinnitsia	0.0	19.7	33.3	27.8
Volyn	8.3	17.5	30.0	33.3
Dnipropetrovsk	13.6	16.3	24.7	17.4
Donetsk	8.3	15.8	20.5	14.8
Zhytomyr	12.5	27.5	16.7	34.6
Zakarpattia	18.2	16.7	45.8	25.0
Zaporizhzhya	0.0	19.6	16.2	20.8
Ivano-Frankivsk	33.3	26.1	31.0	28.0
Kirovohrad	16.0	18.9	12.5	22.2
Luhansk	17.6	18.6	14.3	21.0
Lviv	2.2	17.6	30.2	33.3
Mykolayiv	7.0	13.3	17.2	11.8
Odessa	11.1	10.9	19.0	20.0
Poltava	9.1	20.0	21.1	36.1
Rivne	15.4	19.2	33.3	41.7
Sumy	0.0	16.9	25.0	17.2
Ternopil	2.9	8.3	13.0	46.2
Kharkiv	3.1	14.5	18.6	28.1
Kherson	13.3	14.3	7.1	22.2
Khmelnitsky	0.0	29.4	13.8	35.0
Cherkasy	16.7	28.1	17.1	20.0
Chernitsi	0.0	12.8	46.2	33.3
Chernihiv	0.0	27.3	11.1	27.3
AVERAGE	8.5	17.3	22.5	26.4

Significant regional variations may be observed in the table. The largest growth figures are highlighted in the table. For example, almost half of the large firms in Kyiv City, Kyiv and Ternopil oblasts reported a growth of net profit in the period of previous six months. In some regions, no zero employee businesses reported an increase of net profits figures (Kyiv city, Vinnitsia oblasts, etc.)

C. PAYMENT PROCEDURES

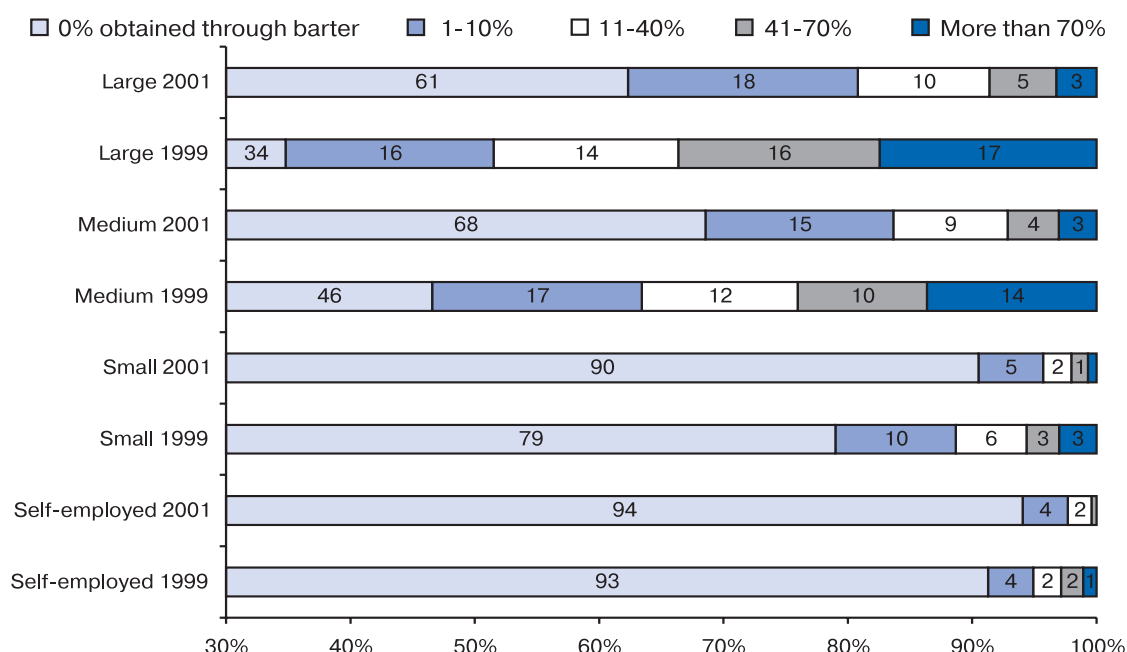
Barter operations

The use of barter to purchase raw material, supplies and equipment

One of the major findings of the survey is that Ukrainian businesses are less likely to use barter for purchases (inputs, raw material and equipment) and sales of goods and services than before.

Figure 2.15 demonstrates that in 2001 there was a significant drop in barter transactions.⁴ Small firms were less likely than larger firms to use barter in 1999, and this is even more so the case in 2001, as the percentage of small firms who barter for any amount of goods and services dropped from 21% to 10%. In 1999, 54% of medium firms bartered for goods and services, compared to only 32% in 2001. And larger firms showed an even more dramatic drop, from 66% in 1999 to 39% in 2001. Of those who did use barter transactions in 2001, a majority of them were not likely to make more than 10% of their purchases by barter.

Figure 2.15. % of Raw Materials, Supplies, Equipment Obtained Through Barter, by Firm Size, 2001 & 1999



The distribution of small firms using barter to purchase raw material, supplies and equipment, is presented in the table below (see Table 2.16).

Table 2.16. Reporting Percent of Raw Materials, Supplies and Equipment Obtained Through Barter by Small Firms, 1999 and 2001 (percent)

This table also demonstrates the increased portion of small businesses that did not use barter while purchasing inputs and equipment. In addition, almost 92% of firms with fewer than ten employees tended to use no barter at all. The period between 1999 and 2001 represents real progress towards a more efficient monetary economy, which will make firms in Ukraine more productive and, therefore, more competitive with outside firms.

Percent of Barter Arrangements	YEAR	Number of employees		
		1-5	6-10	11-50
Zero	1999	85.1	79.2	72.3
	2001	91.7	92.4	85.8
1-10 %	1999	6.6	9.1	13.3
	2001	3.1	5.3	7.1
11-40%	1999	77.0	69.8	56.4
	2001	79.0	69.4	59.2
41-70%	1999	2.1	1.9	3.9
	2001	2.0	0.3	1.7
More than 70%	1999	2.6	2.1	4.3
	2001	0.4	0.2	1.5

⁴ This may be related to the fact that in 1999-2000 the government undertook a series of measures geared towards the reduction the barter transactions in Ukrainian economy.

Small and Medium Enterprise (SME) Survey – Summary Report

Distribution by regions is presented below (*see Table 2.17*).

Table 2.17. Percent of Firms Not Using Barter Transactions for Purchase of Raw Materials, Supplies or Equipment, 2001

As may be observed from the table, oblasts with the highest number of firms that do not use barter arrangements are:

- Small Firms – Zakarpattia (98%)
- Medium Firms – Kyiv city (88%)
- Large Firms – Rivne (83%).

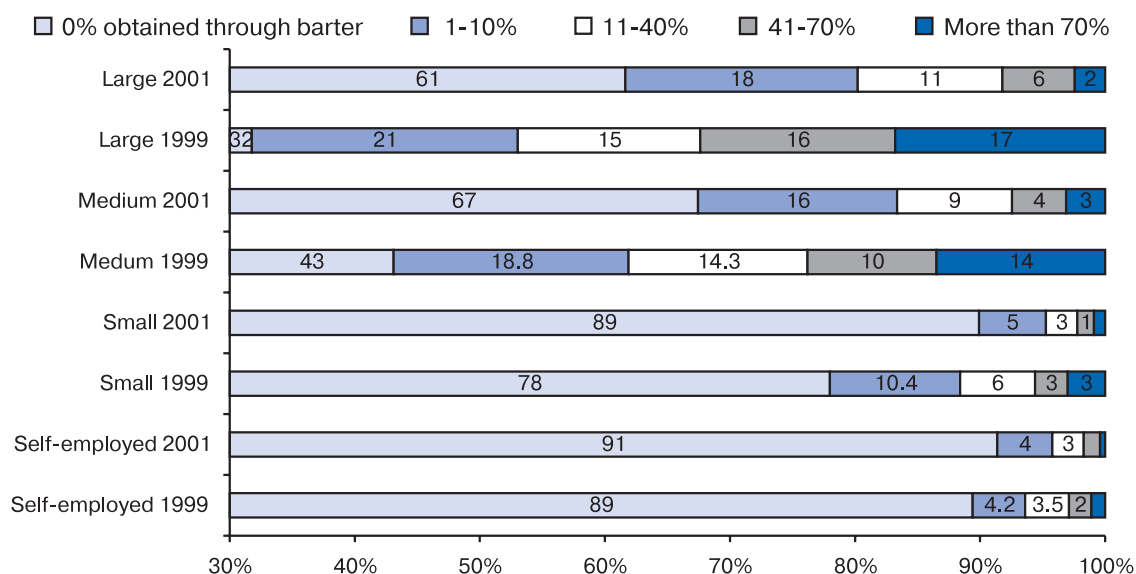
Oblast	Small	Medium	Large
Crimea	89.1	77.6	60.0
Kyiv City	94.2	87.7	78.9
Kyiv oblast	84.8	80.0	38.5
Vinnitsia	87.9	55.6	61.1
Volyn	77.5	70.0	53.3
Dnipropetrovsk	84.5	75.3	70.9
Donetsk	89.6	60.2	57.0
Zhytomyr	77.5	51.7	34.6
Zakarpattia	97.9	79.2	66.7
Zaporizhzhya	88.0	48.6	62.3
Ivano-Frankivsk	91.3	69.0	72.0
Kirovohrad	90.6	58.3	61.1
Luhansk	81.4	52.4	44.4
Lviv	88.7	68.3	69.4
Mykolayiv	91.9	79.3	58.8
Odessa	96.5	83.7	54.3
Poltava	82.7	50.0	63.9
Rivne	80.8	63.3	83.3
Sumy	79.7	54.2	44.8
Ternopil	93.3	87.0	53.8
Kharkiv	96.4	72.9	67.2
Kherson	89.6	64.3	66.7
Khmelnitsky	90.2	48.3	60.0
Cherkasy	89.5	54.3	64.0
Chernitsi	87.2	53.8	66.7
Chernihiv	89.1	55.6	50.0
AVERAGE	89.2	68.0	61.4

Use of Barter for Sales of Goods and Services

The use of barter on the sales side of transactions shows a similarly large improvement from 1999 to 2001. As can be seen (*see Figure 2.18*), the portion of businesses who do not use barter in sales transactions increased, specifically:

- For small firms from 78 to 89%
- For medium businesses from 43 to 67%
- For large firms from 32 to 61%

Figure 2.18. Percentage of Sales Made Through Barter, by Firm Size, 1999 and 2001 (percent)



PERFORMANCE RESULTS

Again, as was the case with barter for inputs, the majority of those who are involved in sales barter do not sell through barter agreements for more than 10% of their sales.

Distribution for small firms is presented below (*see Table 2.19*).

Table 2.19. Portion of Small Businesses Reporting Part of their Sales through Barter

Percent of Sales through Barter	YEAR	Number of employees		
		1-5	6-10	11-50
Zero	1999	84.3	78.5	71.2
	2001	90.9	92.0	84.7
1-10 %	1999	7.0	10.7	13.5
	2001	3.9	4.5	7.5
11-40%	1999	4.1	6.8	7.0
	2001	2.4	1.7	3.4
41-70%	1999	2.1	1.9	3.9
	2001	1.1	0.5	2.3
More than 70%	1999	2.6	2.1	4.3
	2001	0.7	0.5	1.6

This table also shows that a growing percentage of small firms do not use barter for sales of their goods and services. Almost none of the firms in the 6–10 employee size category are likely to use barter. In addition, over the last two years medium and large companies have also made a significant move forward, resolutely giving up barter transactions for both purchases and sales.

Distribution by regions is presented below (*see Table 2.20*).

Table 2.20. Percent of Firms Not Bartering for Sales of Goods and Services.

As may be noted from the table, the largest number of firms with zero use of barter for sales of goods and services are concentrated in the following oblasts:

- Small firms – 100% of small firms in Zakarpattia oblast did not use barter agreements
- Medium firms – 89% medium firms in Kyiv City and in Odessa and Ternopil oblasts
- Large firms – 79% large businesses in Kyiv city, 75% – in Rivne and Kharkiv oblasts (these oblasts are highlighted in the table)

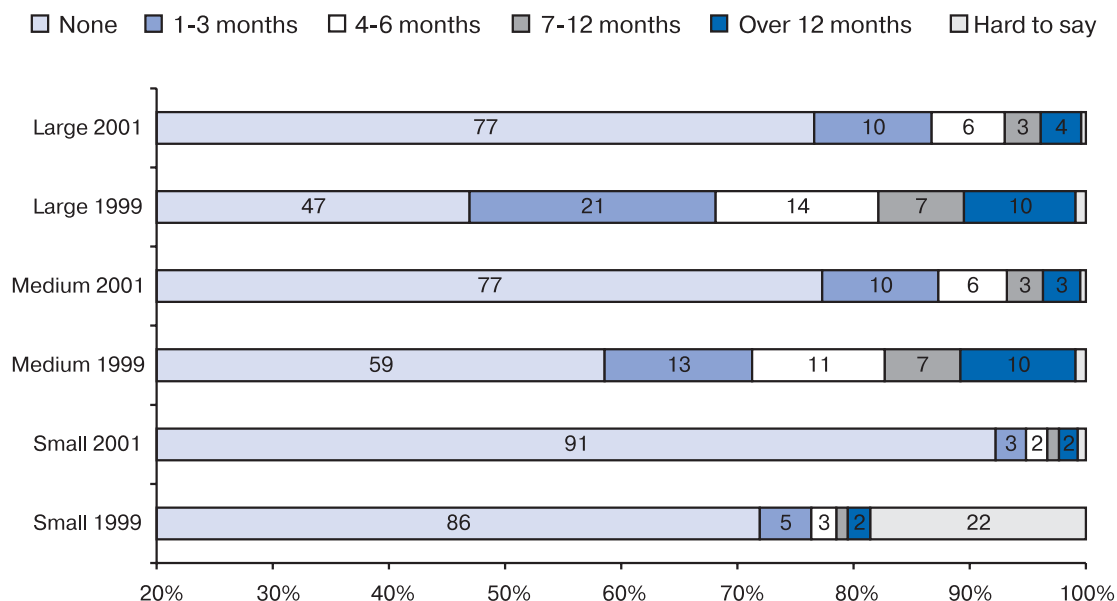
	Small	Medium	Large
Crimea	90.6	74.1	56.0
Kyiv City	94.6	87.7	78.9
Kyiv oblast	84.8	66.7	38.5
Vinnitsia	83.3	37.8	50.0
Volyn	82.5	70.0	46.7
Dnipropetrovsk	82.0	73.1	60.0
Donetsk	86.9	64.8	61.4
Zhytomyr	75.0	62.1	30.8
Zakarpattia	100.0	66.7	75.0
Zaporizhzhya	88.0	45.9	56.6
Ivano-Frankivsk	89.9	55.2	60.0
Kirovohrad	88.7	69.6	61.1
Luhansk	81.3	45.2	42.9
Lviv	88.7	71.4	69.4
Mykolayiv	91.9	75.9	58.8
Odessa	96.5	86.0	51.4
Poltava	82.4	55.3	71.4
Rivne	79.5	63.3	75.0
Sumy	78.0	56.5	44.8
Ternopil	91.7	86.4	61.5
Kharkiv	94.3	72.9	75.0
Kherson	90.9	60.7	66.7
Khmelnytsky	86.3	53.6	60.0
Cherkasy	87.7	48.6	56.0
Chernitsi	87.2	69.2	66.7
Chernihiv	87.3	51.9	63.6
AVERAGE	89.0	66.9	60.7

Payment of wages in-kind

In 1999 many workers found themselves paid not in Hryvnia but in terms of the goods or services produced by the firm for which they worked. The numbers for 1999 and 2001 are presented in *Figure 2.21* below for comparison. The data show that the majority of respondents did not use payment in-kind to pay or partially pay workers. Specifically, the portion of firms which did use payment in-kind in 2001, has decreased vis-a-vis 1999 as follows:

- from 14 to 9% for small businesses
- from 41 to 23% for medium
- from 53 to 23% for large companies.

Figure 2.21. Percentage of Wage Payments In-Kind, by Firm Size, 1999 and 2001



Thus, fewer businesses were likely to pay their workers in-kind in 2001, and of those who did, less than 4% paid over 70% of wages in terms of goods and services.

The distribution regarding small firms is presented below (*see Table 2.22*).

Table 2.22. Portion of Wage Payments In-Kind (goods and services) by small firms, 1999 and 2001

Percent of Wage Payments made In-Kind	YEAR	Number of employees		
		1-5	6-10	11-50
Zero	1999	86.8	89.0	80.9
	2001	92.8	93.0	88.0
1-10 %	1999	4.8	5.3	8.7
	2001	2.0	2.1	4.6
11-40%	1999	2.9	2.1	4.1
	2001	1.1	2.1	2.7
41-70%	1999	0.8	0.6	2.4
	2001	0.7	0.8	1.9
More than 70%	1999	2.7	2.1	3.6
	2001	1.8	1.7	2.2

As may be noted from the table, there is positive trend to decrease the number of firms paying wages in kind. Thus, 93% of businesses in the 1 to 10 employee category, and 88% of firms in the category of 11-50 employees paid their workers in-kind.

The distribution by regions is presented in *Table 2.23*, below.

PERFORMANCE RESULTS

Table 2.23. Percent of Businesses Paying Wages in Hryvnia, by oblast, 2001

As may be observed from this table, the biggest number of firms that paid their workers cash, rather than in kind, may be found in the following regions:

- Small firms – 98% of small businesses in Kyiv City, 96% in Cherkasy and 95% in the Kharkiv oblasts
- Medium firms – 95% of medium firms in Odessa, 93% in Kyiv City and 91% in Ternopil oblasts
- Large firms – All surveyed large enterprises in the Zakarpattia oblast

	Small	Medium	Large
Crimea	92.2	87.9	92.0
Kyiv City	97.8	93.1	90.8
Kyiv oblast	81.8	80.0	76.9
Vinnitsia	83.3	57.8	72.2
Volyn	92.5	85.0	80.0
Dnipropetrovsk	88.4	78.5	74.4
Donetsk	92.8	72.7	82.4
Zhytomyr	82.1	66.7	61.5
Zakarpattia	93.8	87.5	100.0
Zaporizhzhya	93.5	75.7	83.0
Ivano-Frankivsk	85.3	69.0	56.0
Kirovohrad	81.1	70.8	83.3
Luhansk	85.0	54.8	65.1
Lviv	89.9	82.5	75.0
Mykolayiv	86.7	82.8	58.8
Odessa	93.8	95.3	88.6
Poltava	82.7	71.1	83.3
Rivne	89.0	73.3	58.3
Sumy	89.8	62.5	58.6
Ternopil	78.3	91.3	61.5
Kharkiv	94.8	82.9	75.0
Kherson	93.5	71.4	83.3
Khmelnitsky	88.2	58.6	55.0
Cherkasy	96.5	60.0	80.0
Chernitsi	89.7	61.5	77.8
Chernihiv	92.7	77.8	72.7
AVERAGE	90.6	77.3	76.7

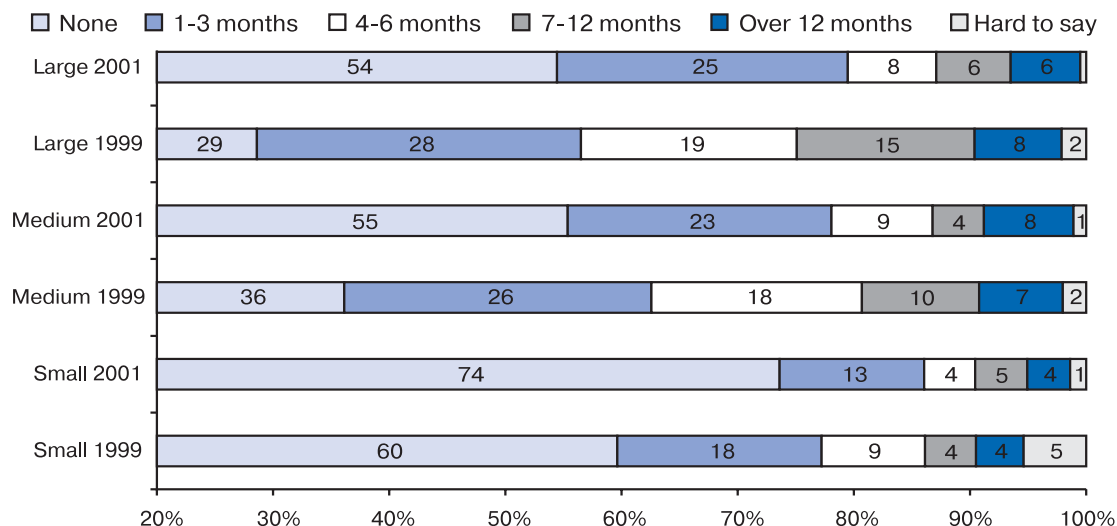
Wage Arrears

Approximately 60% of small firms reported paying their workers in a timely fashion in 1999, while only 36% of medium firms and 29 of large firms could make the same claim. In 2001, the situation improved notably: 74% of small, 55% of medium, and 54% of large businesses reported they had no delays in wage payment. While the number of business which were one to three months in arrears did not significantly change, the number of businesses four to twelve months in arrears did reduce from 1999 to 2001 (see Figure 2.24) as follows:

- Small firms – 13 to 7%
- Medium – 28 to 13%
- Large – 34 to 14%

However, medium and large businesses still account for the bulk of wage arrears.

Figure 2.24. Percent of Firms Reporting the Length of Time Workers are Paid in Arrears, by Firm Size, 1999 and 2001



The regional distribution is presented in the table below (*see Table 2.25*).

Table 2.25. Percent of Firms Reporting No Wage Arrears, 2001

	Small	Medium	Large
Crimea	83.6	59.6	60.0
Kyiv City	85.0	74.6	80.3
Kyiv oblast	63.6	26.7	61.5
Vinnitsia	71.2	46.7	55.6
Volyn	62.5	70.0	60.0
Dnipropetrovsk	71.7	59.1	50.6
Donetsk	75.2	43.2	43.7
Zhytomyr	69.2	46.7	38.5
Zakarpattia	70.8	70.8	66.7
Zaporizhzhya	73.9	54.1	58.5
Ivano-Frankivsk	72.1	51.7	60.0
Kirovohrad	62.3	37.5	55.6
Luhansk	64.6	42.9	36.5
Lviv	69.8	42.9	52.8
Mykolayiv	77.0	62.1	41.2
Odessa	73.9	60.5	54.3
Poltava	80.0	57.9	75.0
Rivne	71.2	46.7	58.3
Sumy	62.7	54.2	62.1
Ternopil	53.3	47.8	38.5
Kharkiv	78.8	64.3	45.3
Kherson	79.2	57.1	66.7
Khmelnitsky	60.8	58.6	55.0
Cherkasy	63.2	42.9	68.0
Chernitsi	79.5	46.2	55.6
Chernihiv	80.0	55.6	59.1
AVERAGE	73.9	55.3	54.4

As becomes evident from the table above, the following oblasts rank highest by the number of businesses of various size categories having no wage arrears:

- Small businesses – Kyiv City (85% of small businesses) and Crimea (84%)
- Medium/Large businesses – 75% of medium and 80% of large businesses in Kyiv City.

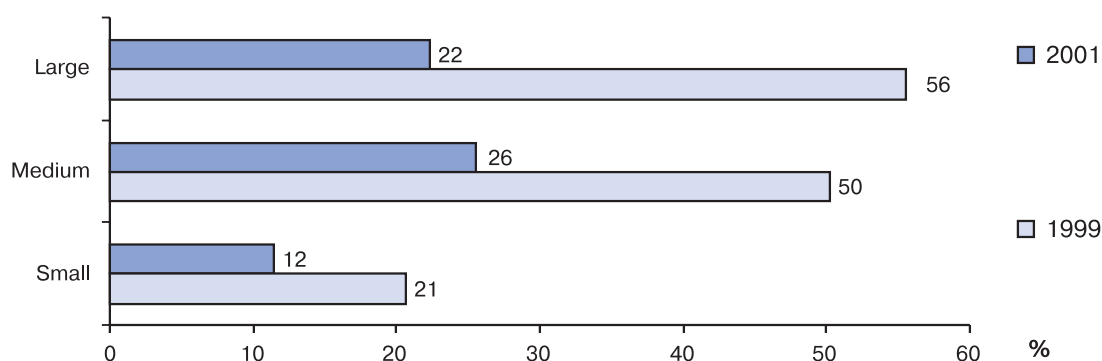
Workers on Unpaid Leave

The business practice of placing some employees on extended unpaid leave is one issue that obscures the full impact of job reduction. For all intents and purposes, this has the effect of a dismissal and it is unlikely that these workers will ever be put back on the active payroll. The percentage of firms that placed employees on unpaid leave in 2001 has decreased against 1999 (*see Figure 2.26*):

- For small businesses from 21 to 12%
- For medium from 50 to 26%
- For large companies from 56 to 22%.

In general, among the surveyed businesses, very few are likely to place their workers on unpaid leave. This is particularly true for small businesses where, on average, one out of every ten firms sent employees on unpaid leave. One out of four medium and one out of five large firms used this practice.

Figure 2.26. Percentage of Firms Sending Employees on Unpaid Leave, 1999 and 2001



PERFORMANCE RESULTS

A regional breakdown of this question is presented below (*see Table 2.27*). According to the survey findings, almost one fourth (23%) of small firms in Cherkasy oblast, 40% of medium businesses in Vinnytsia oblast and half of large businesses in Rivne oblast indicated that they sent their workers on unpaid leave in 2001.

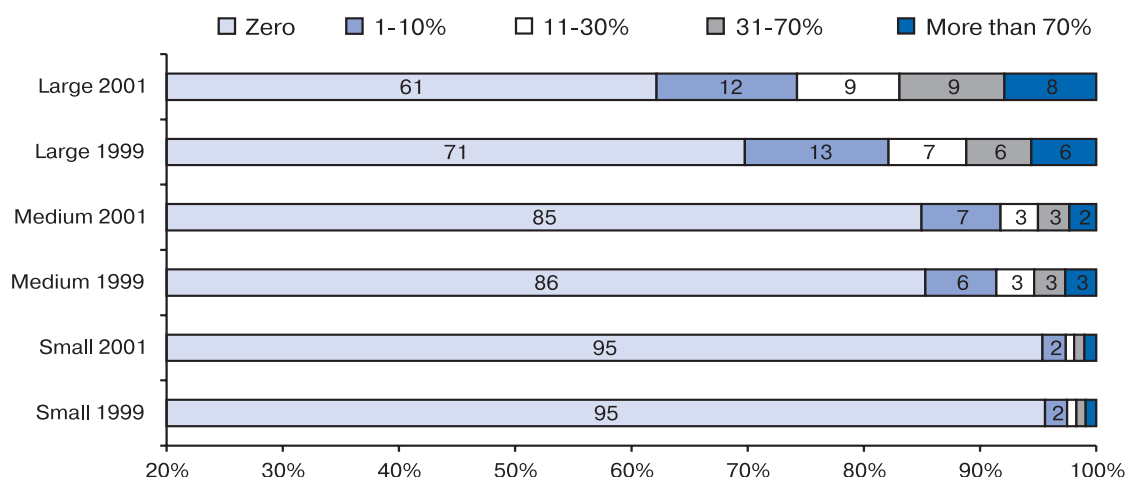
Table 2.27. Percent of Businesses Reporting Unpaid Leave, 2001

	Small	Medium	Large
Crimea	7.0	17.2	16.0
Kyiv City	8.7	16.2	13.2
Kyiv oblast	18.2	26.7	38.5
Vinnytsia	18.2	40.0	33.3
Volyn	20.0	30.0	33.3
Dnipropetrovsk	10.3	23.9	20.9
Donetsk	14.9	22.7	20.4
Zhytomyr	10.0	30.0	26.9
Zakarpattia	14.6	37.5	16.7
Zaporizhzhya	13.0	33.3	26.9
Ivano-Frankivsk	14.5	37.9	44.0
Kirovohrad	7.5	16.7	16.7
Luhansk	14.3	33.3	17.5
Lviv	11.9	34.9	25.0
Mykolayiv	6.8	20.7	29.4
Odessa	5.4	27.9	20.6
Poltava	9.6	21.1	16.7
Rivne	13.7	36.7	50.0
Sumy	11.9	16.7	24.1
Ternopil	8.3	18.2	23.1
Kharkiv	11.9	18.6	15.6
Kherson	12.0	21.4	16.7
Khmelnitsky	7.8	34.5	40.0
Cherkasy	23.2	35.3	16.0
Chernitsi	10.3	23.1	11.1
Chernihiv	10.9	22.2	31.8
AVERAGE	11.5	25.6	22.3

D. EXPORTS

According to the 2001 data, an insignificant number of small and medium Ukrainian firms exported their goods and services. Only five% of small and 15% of medium businesses were engaged in export. This last survey demonstrated that the situation has not changed when compared to 1999. Larger firms are doing much better in terms of export. The proportion of large firms reporting they export is almost 40%. The portion of large businesses exporting their goods and services increased from 29 to 39% (*see Figure 2.28*).

Figure 2.28. Percent of Firms Reporting Exports, by Firm Size, 1999 and 2001



Export of output to Russia and other CIS countries is presented in the table (*see Table 2.29*) below.

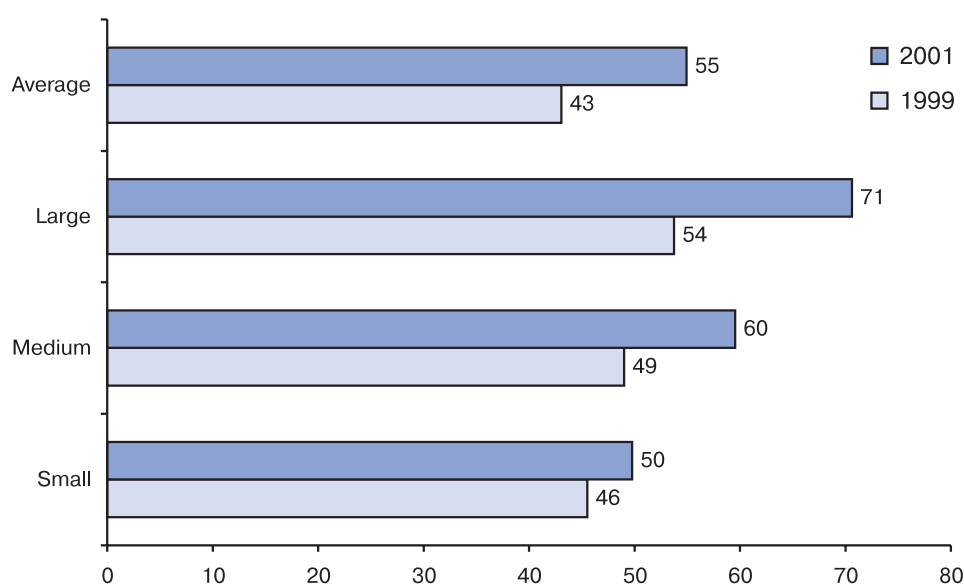
Table 2.29. Percent of Firms Reporting Sales to Russia and Other CIS States, 1999 and 2001

	YEAR	Small	Medium	Large	The portion of Ukrainian firms' export to Russia and other CIS states is significant: <ul style="list-style-type: none"> • 66% small businesses (of the 5% engaged in export operations) • 73% of medium and large firms (of the 15% engaged in export operations). However, the number of businesses that used to export more than 70% of output to Russian market had a tendency to decreased from 1999 to 2001.
Zero	1999	33.3	28.1	22.7	
	2001	23.7	23.5	22.8	
1-10 %	1999	23.8	35.2	35.1	
	2001	31.1	37.0	29.8	
11-30%	1999	8.6	12.5	10.2	
	2001	8.9	16.7	14.6	
31-70%	1999	9.5	10.9	16.0	
	2001	11.1	9.3	15.7	
More than 70%	1999	24.8	13.3	16.0	
	2001	14.8	10.5	12.9	

E. INVESTMENTS

The findings of the survey demonstrate that businesses were more likely to invest in upgrading production in 2001 than they were in 1999. While in 1999, an average of 43% of businesses invested in production upgrades, 55% did so in 2001.⁵ These data support the overall macroeconomic stabilization that the country reached in 2000 and 2001. It appears that larger businesses were more inclined to invest in modernization of production (*see Figure 2.30*).

Figure 2.30. Percent of Businesses Investing in Production Upgrades in the Last 12 Months, 1999 and 2001

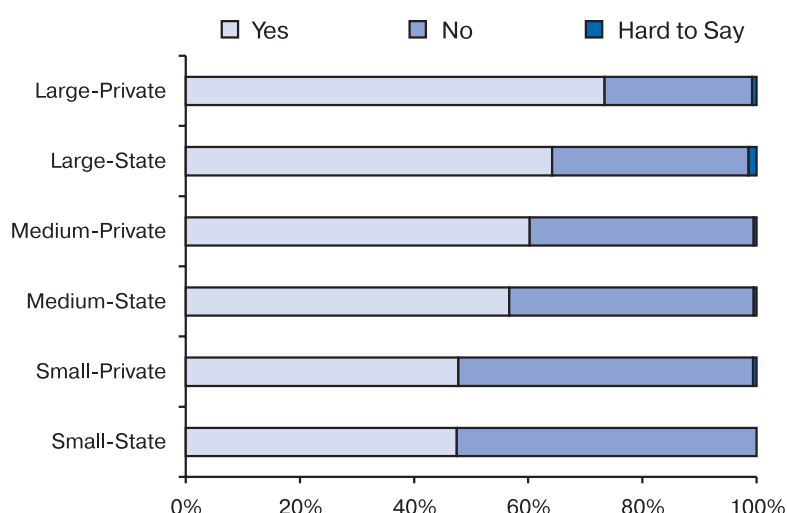


A comparison of state versus private firms shows very little difference. Nearly half of small firms in both state and private ownership made such investments during the previous 12 months (*see Figure 2.31*). Large businesses, particularly privately owned businesses, were even more active. 73 percent of private large companies invested in modernization and expansion of operations.

⁵ Only 40.8% of respondents answered the question on the overall amount of investment spent on the production upgrade, purchase, or lease of equipment and buildings. For more details, please see the Appendix.

PERFORMANCE RESULTS

Figure 2.31. Percentage of Firms Reporting Investment in Capital Items During the Previous 12 Months, State and Private, by Employment Size, 2001



It appears that the bulk of investment resources were used to purchase new production equipment and to refurbish premises and production buildings (*see Table 2.32*). In 2001, large businesses were most likely to invest in production equipment (74%) and capital repair of premises and building (60%).

There is also a clear growth trend among self-employed businesses undertaking refurbishment of premises and buildings. While their portion in 1999 was 18%, in 2001 it grew to 37%.

Table 2.32. Investment into Production Capital Resources (percent of firms)

	YEAR	Self-employed	FIRM SIZE		
			Small	Medium	Large
Production Premises and Buildings	1999	11.1	13.4	26.9	31.1
	2001	7.7	14.6	19.8	20.2
Movables and Furniture	1999	17.8	17.2	11.6	16.6
	2001	9.2	23.1	21.6	24.1
Transport	1999	13.3	12.8	26.9	31.1
	2001	24.6	11.6	30.6	34.7
Production Equipment	1999	48.9	57.2	60.7	66.3
	2001	43.1	52.8	59.2	74.0
Modernization of Existing Building	1999	17.8	46.8	54.6	49.8
	2001	36.9	48.5	57.8	59.6

F. TRADE CREDIT

Only 26% of small firms and about 20% of medium and large businesses and reported that they received trade credit from suppliers on terms of consignment in 2001. The share of businesses receiving this type of credit slightly declined compared to 1999.

It should be noted that more than two-thirds of all firms reported that in 2001 they were given 30 days to pay for goods provided on credit. This is a notable increase compared to 1999:

- For large businesses from 51 to 67%
- For medium firms from 48 to 69%
- For small firms from 55 to 68%.

The percentage of firms that reported that they received 60 days credit in 2001 has also grown compared to 1999. However, the number of those who were given credit for a longer period than 90 days has decreased (*see Table 2.33*).

Table 2.33. Percent of Firms Reporting Conditions of Credit Provided by Suppliers, 1999 and 2001

Payment	Year	FIRM SIZE		
		Small	Medium	Large
Payment after sales	1999	29.4	21.8	20.6
	2001	26.1	19.6	18.9
With 30 day postponement	1999	55.1	48.2	51.4
	2001	67.7	68.9	66.9
With 60 day postponement	1999	8.1	12.7	9.8
	2001	8.7	12.1	15.3
With up to 90 days postponement	1999	6.1	13.0	11.3
	2001	4.7	7.3	10.3

BUSINESS ENVIRONMENT

A. BUSINESS REGISTRATION PROCESS

Registration procedures

The survey data demonstrate that the business registration process has become less problematic compared to other regulatory procedures,¹ particularly compared to obtaining licenses, permits, and approvals.

The majority of respondents undergoing business registration in 2000–2001 reported that they did not use an agent or a consultant to register their businesses (*see Figure 3.1*), which may suggest that they did not need an outside expert to assist them in navigating the process.

Moreover, the majority of firms indicated that they had almost all of the information they needed in order to register in an efficient manner. Self-employed and small businesses were slightly less likely to have enough information: a little more than half of them had all necessary information to register (*see Figure 3.2*).

Figure 3.1. Who Was Responsible for Completing Paperwork for Registration, by Firm Size, 2001 (percent)²

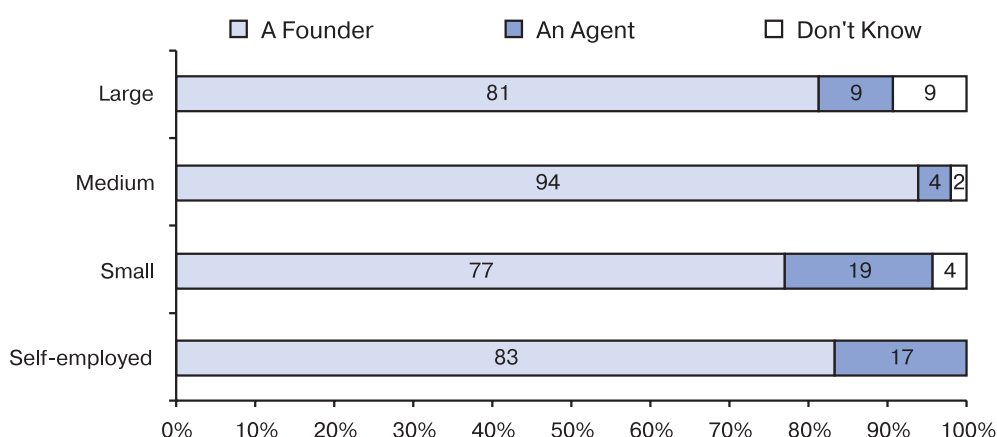
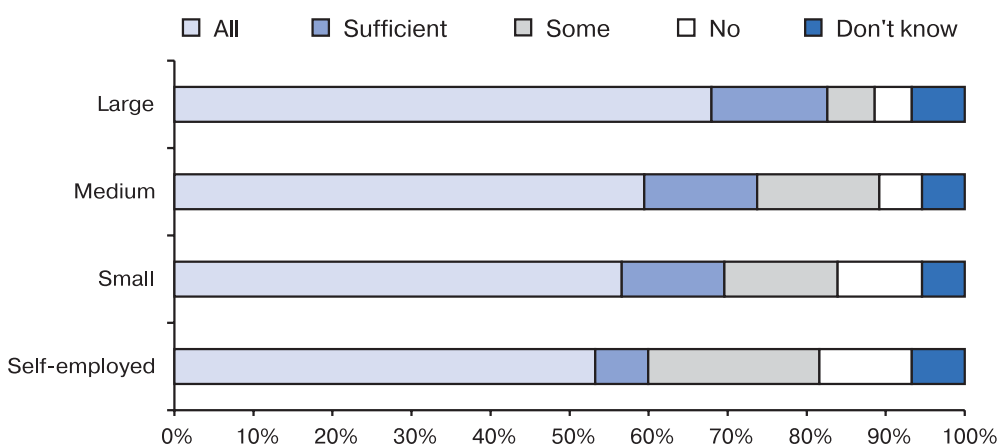


Figure 3.2. Availability of Information on Business Registration, 2001



¹ This finding is supported by *Ukrainian Enterprises in 2000*, an IFC Survey of Ukrainian Businesses, by Max Yacoub, Bohdan Senchuk, Taras Tkachenko, Kyiv, May, 2001

² No questions about registration or licensing were asked in the 1999 survey.

Registration Period

Data on the amount of time spent by businesses to obtain a registration certificate is presented below (see Table 3.3). According to the current legislation, business registration must be completed by a state registration office within 5 working days (or one day, if the fast track process is chosen) – this requirement was established by the Cabinet of Ministers resolution # 740, May 25, 1998.

The overall length of time it takes to start up a business in Ukraine, according to the survey, is 23 days (small businesses, specifically, spend 19 calendar days). Of those days, it takes a combined fourteen days to register the firm with the tax authorities and other government agencies, obtain permission to manufacture a stamp, and open a bank account.

According to the data survey, Ukrainian businesses spent eight calendar days on average in 2001 to receive the certification for state registration of business. It should be noted that the length of time it takes to obtain the certificate tends to depend on the size of firm:

- Self-employed – 4 calendar days
- Small – 7 calendar days
- Medium – 11 calendar days
- Large – 9 calendar days

According to the data of another survey, a recent working paper published by the National Bureau of Economic Research that looked at the registration process in 75 countries including Ukraine,³ the length of the registration process in Ukraine was not the longest when compared to other countries. However, it is possible and needed to further streamline the process for obtaining a registration certificate⁴ and re-registration. International practice demonstrates that it is possible to improve the system. For example, the charter of a single bureau in Romania to issue registration certificates and all necessary permits and approvals significantly simplified conditions for the start-up and development of businesses with small firms foremost. The establishment of a single registration office would enable business owners to reduce the time necessary to obtain registration documents and necessary permits and to commence operations. It should be noted that since the end of the last year, with the support of BIZPRO Project, one-stop shops have already been launched in several towns of Ukraine (Mykolayiv, Ivano-Frankivsk, Kherson, Khmelnytsky). Their main objective is to place representatives of all relevant state services together in one location in order to cut time consumption and cost for the registration of enterprises, to simplify the process of obtaining permits and permissions for business start up, and to make sure the entire process is transparent for the parties concerned.

Table 3.3. Average Number of Days⁵ for Business Registration, 2001

	Self-employed	FIRM SIZE			
		Small	Medium	Large	AVERAGE ⁶
State Registration Office	4.0	7.3	10.8	9.3	8.4
<i>Post-Certification Procedures:</i>					
State Committee on Statistics	2.7	2.2	2.8	2.8	2.8
Tax Administration	4.4	3.7	3.6	3.9	3.9
Police	4.4	3.0	4.0	3.9	3.5
Pension Fund	1.4	1.5	1.9	1.9	1.8
Social Insurance Fund	2.0	1.5	2.0	2.1	2.0
Banking Procedures	1.7	2.7	2.4	2.7	2.6
Total Time	13.6	18.8	24.6	25.1	22.8

Note: The overall length of registration is shorter than the sum of time spent on dealings with various agencies because many of the processes are concurrent.

³ The Regulation of Entry, National Bureau of Economic Research, Working Paper 7892, by Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, Cambridge, Massachusetts, September, 2000.

⁴ The first step is to receive a 'registration certificate'. This is not, however, the complete process. A business is not fully registered until it has also registered the firm with Tax Authorities and other government agencies (State Committee on Statistics, Pension Fund, Social Security Fund), received permits in the Ministry of Internal Affairs to manufacture stamps, and opened a bank account – all of which are done after receiving the certificate.

⁵ To compare results of the survey (which is in calendar days) with the established statutory time requirements (which is in working days), the survey data should be divided by 1.4.

⁶ Average is calculated for small, medium and large businesses.

Re-Registration

Business enterprises in Ukraine are required to re-register in cases stipulated by the current legislation, specifically when the title of the firm, its organizational structure, or the form of ownership changes (according to the Law of Ukraine “On Entrepreneurship” of February 7, 1991 # 698-XII).

Among those surveyed, 13% underwent a re-registration procedure. Of those, enterprise owners appear to have initiated half of the re-registrations.

Ukrainian businesses took 27 calendar days on average to complete re-registration process. Of those, *obtaining a new certificate on business registration* takes:

- Self-employed businesses – five calendar days
- Small – nine calendar days
- Medium – eleven calendar days
- Large – nine calendar days

B. BUSINESS LICENSING

Generally, four types of licenses may be distinguished within the existing licensing system in Ukraine.

1. **Type of Business.** In Ukraine, 61 types of business activity are subject to licensing according to the Law of Ukraine “On Licensing Certain types of Business Activity”.
2. **Sector-Specific Activity.** Licensing of specific types of business activity, specifically banking operations and the provision of banking services, broadcasting channels, power-generation and nuclear energy, production and distribution of ethyl, cognac and fruit alcohols, hard drinks and tobacco, are governed by legislation regulating these sectors.
3. **Foreign Economic Activity.** Licensing of foreign economic activity according to the Law of Ukraine ‘On Foreign Economic Activity’.
4. **Intellectual Property Activities.** Licensing in the area of intellectual ownership according to the Law of Ukraine “On Copyright and Common Rights”.

The number of licenses required

According to the survey, the overwhelming majority of respondents are involved in types of activity not subject to licensing. Thus, a considerable portion of respondents indicated, that in 2001 they:

- | | |
|--|---|
| <p>(a) had no license (<i>see Figure 3.4</i>)</p> <ul style="list-style-type: none"> • 83% of self-employed • 55% small • 36% medium • 39% large | <p>(b) had only one license (<i>see Figure 3.5</i>)</p> <ul style="list-style-type: none"> • 14% of self-employed • 29% small • 33% medium • 25% large. |
|--|---|

Figure 3.4. Percent of Firms Reporting “No Licenses Required”

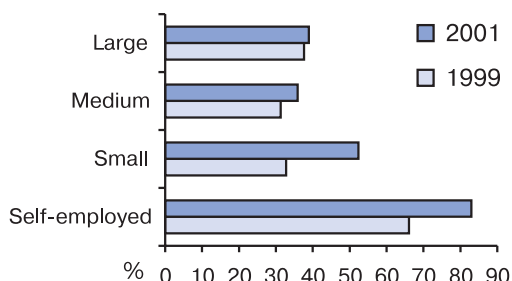
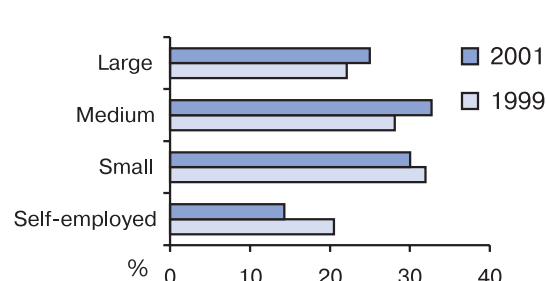
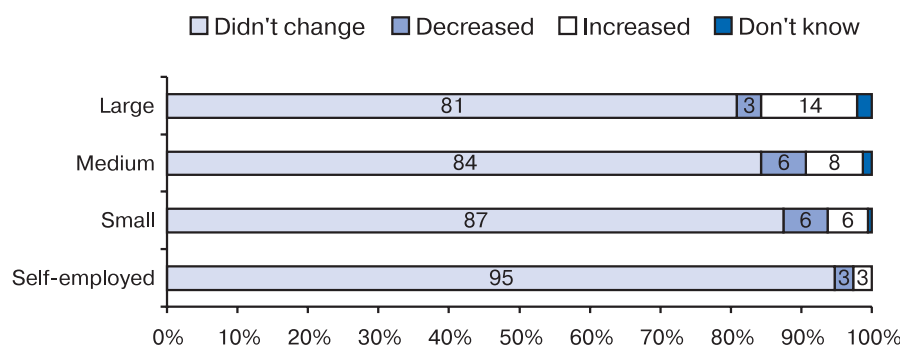


Figure 3.5. Percent of Firms Reporting “One License Required”



The majority of respondents indicated that the number of required licenses did not change during the twelve months prior to the survey (*see Figure 3.6*). For those who did report changes, the majority of the changes were initiated by owner/managers of the firms to expand their operations into areas that are subject to licensing.

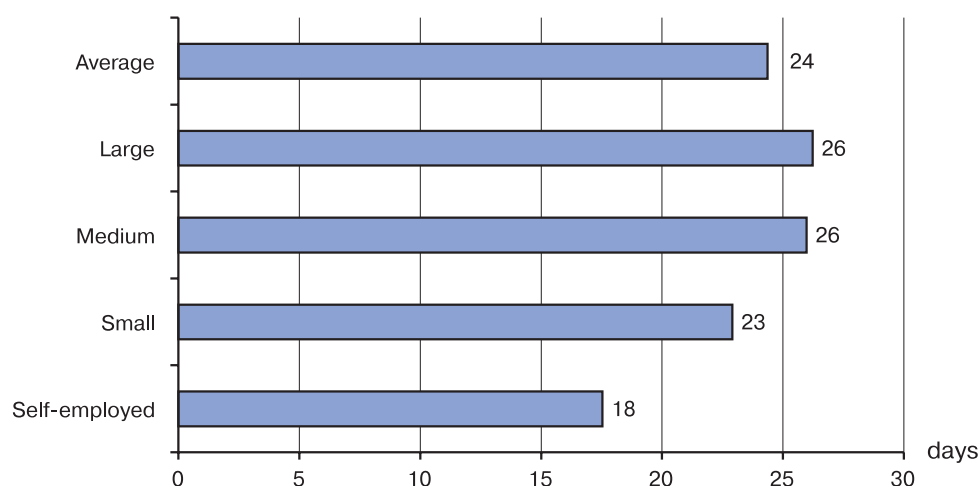
Figure 3.6. % of Firms Reporting Change in # of Licenses During Last Year, by Firm Size, 2001



The Time Needed to Obtain a License

Processing license applications from start to finish takes longer, on average, than the length of time needed to complete the registration process, as shown in *Figure 3.7*. According to the survey data, on average, businesses in Ukraine spend 24 calendar days (or 17 work days) to obtain licenses. The existing procedures for issuing a license stipulate that the application should be processed within 10 working days, and issued within 16 working days.⁷ Thus, the average time the survey respondents take to obtain licenses is only one working day longer than the minimum number of days provided for under the statutory licensing procedure.

Figure 3.7. Number of Calendar Days to Obtain a License, 2001⁸



C. STATE OF INSPECTIONS

Number of Inspections

Many different business activities are subject to inspections by over thirty government agencies. *Figure 3.8* indicates the number of businesses that had no inspections in the six months prior to the survey. One piece of good news is that the proportion of firms reporting no inspections increased.

⁷ According to the Law of Ukraine “On Licensing of Certain Types of Activity” as of June 1, 2000: After the 10 working days for processing the application, the licensing body must make one of three decisions: to grant a license, to turn down the application, or to leave the application without consideration (in cases where the application is incorrectly completed). The licensing body has three days to notify the applicant of their decision. Then, after the licensing body receives the documents confirming that the applicant has paid the required licensing fee, it must issue a license of the proper format within three working days. Thus, 10 days to process the application, three days to notify of the decision, and three days to issue the license after the fees are paid = 16 working days.

⁸ 5% trimmed means were used for calculation because large outlier values distorted the average. See *Methodology*.

Figure 3.8. % of Firms Reporting No Inspections During Last Six Months, 1999 and 2001

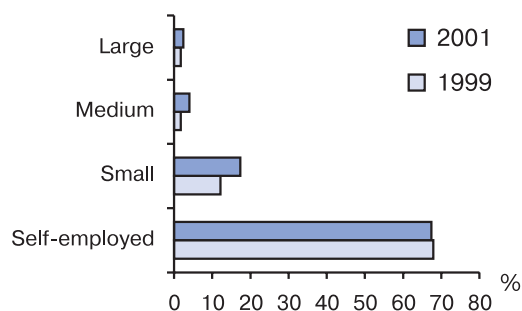


Figure 3.9 illustrates the answers of respondents on how often their firms were inspected by Tax Authorities. Between 1999 and 2001 there was a decreasing tendency in the number of tax inspections. The information received on other inspection bodies is presented below (see Table 3.10). The number of inspections decreased in all categories between 1999 and 2001 except for fire safety, sanitation and ecology for small and medium firms. The number of inspections for large firms decreased in all categories.

Figure 3.9. % of Firms Inspected by Tax Administration In Last Six Months, in 1999 and 2001

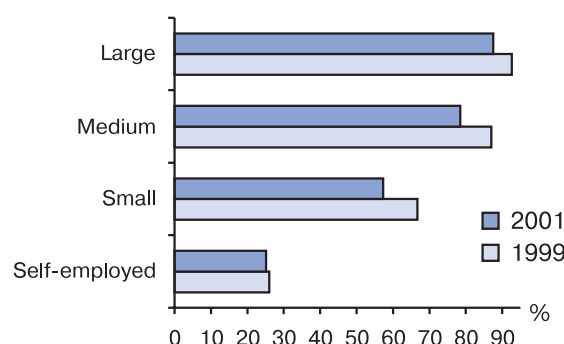


Table 3.10. Percent of Firms Inspected by State Agencies During the Last Six Months, by Firm Size, 1999 and 2001

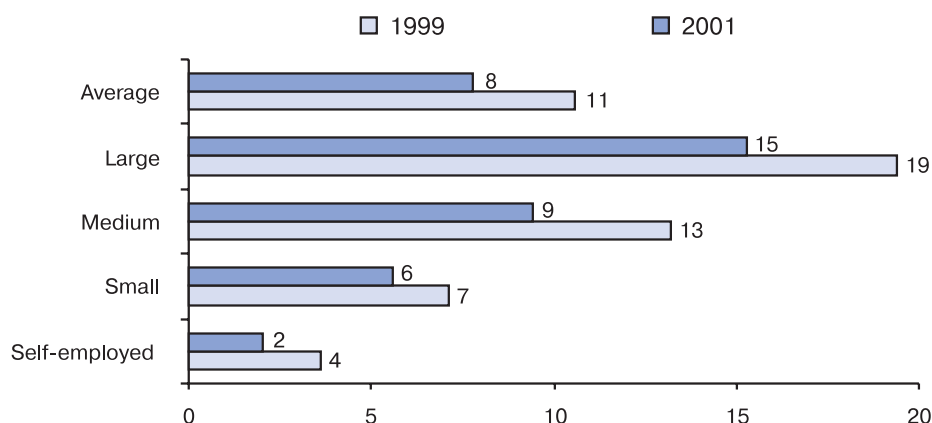
Inspecting Agency	YEAR	Self-employed	FIRM SIZE		
			Small	Medium	Large
Tax Agency	1999	26.0	66.7	87.0	92.6
	2001	25.1	57.3	78.5	87.5
Fire safety	1999	4.5	50.4	84.8	86.7
	2001	6.3	51.3	81.0	82.5
Police	1999	9.7	20.1	34.4	38.7
	2001	6.1	16.4	27.2	29.8
Sanitary	1999	8.9	40.5	71.2	75.7
	2001	10.5	41.0	70.7	71.7
Ecology	1999	1.0	10.9	32.1	47.7
	2001	1.9	12.0	35.3	44.2
Derzhstandart	1999	2.8	17.6	40.4	52.6
	2001	1.0	12.4	30.5	40.9
Consumer Rights	1999	3.6	22.6	27.0	28.0
	2001	3.6	16.0	17.8	20.0
Anti-Monopoly	1999	0.3	5.6	14.2	20.5
	2001	0.2	3.8	7.8	12.3
State Committee On Construction	1999	1.4	10.9	16.3	16.1
	2001	0.4	7.2	10.9	7.3
Licensing Agencies*	1999	—	—	—	—
	2001	1.1	6.1	9.1	8.6
Customs*	1999	—	—	—	—
	2001	1.5	2.0	5.5	9.5

* Included in "Other" in 1999

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The average number of inspections per firm for the six-month period decreased. The average number of inspections dropped from 10.6 in 1999, to 7.8 inspections in 2001 (see Figure 3.11).

Figure 3.11. Number of Inspections by Firm Size, During the Last Six Months, 1999 and 2001.



As was the case in 1999, the average number of inspections increased proportionally to the size of the business. Even though the number of inspections for smaller businesses is lower, the number of inspections per one employee is much higher. It means that the relative burden on smaller firms is higher than for larger firms.

Regional variations in the average number of inspections are presented in Table 3.12, below.

Table 3.12. Number of Inspections by Region, 2001

Region	Average number
Crimea	8.1
Kyiv City	7.1
Kyiv oblast	7.5
Vinnitsia	6.4
Volyn	4.1
Dnipropetrovsk	7.4
Donetsk	12.9
Zhytomyr	8.7
Zakarpattia	8.1
Zaporizhzhya	6.2
Ivano-Frankivsk	3.2
Kirovohrad	12.0
Luhansk	8.9
Lviv	6.0
Mykolayiv	5.5
Odessa	7.4
Poltava	8.3
Rivne	5.3
Sumy	12.8
Ternopil	3.5
Kharkiv	9.1
Kherson	6.4
Khmelnitsky	9.4
Cherkasy	6.3
Chernitsi	6.8
Chernihiv	6.0
AVERAGE	7.8

Survey participants in the following oblasts reported the largest average number of inspections: Donetsk – 12.9 inspections, Sumy – 12.8 and Kirovohrad – 12 inspections. Businesses in Ternopil and Volyn oblasts experienced the smallest number of inspections (3.5 and 4.1 inspections respectively).

D. ACCESS TO FINANCIAL RESOURCES

Availability of Loans

According to survey findings in 2001, on average one in five businesses attempted to receive a credit or loan during the six months prior to the survey. Half of those succeeded in obtaining a credit.

The majority of respondents (who actively sought out loans) tended to approach banks to receive credit (26% of medium-sized and 42% of large firms), with the exception of very small businesses with zero or 1-5 employees (*see Table 3.13*). In contrast, only 4% of the self-employed and 14% of small firms (who actively sought financing) applied to banks. Instead, they tended to approach friends, family or acquaintances for financial support. Not surprisingly, private businesses are more likely to approach banks, than are state-owned firms⁹.

Table 3.13. Percent of Firms that Applied for a Loan During the Last Six Months, by Firm Size, 2001

Which Institutions Did You Apply To?	Self-employed	FIRM SIZE					
		Small				Medium	Large
		1-5	6-10	11-50	Average		
Bank	4.2	10.3	15.6	19.2	13.8	25.6	41.8
Friends, Family	8.7	2.7	2.1	1.0	3.0	0.3	—
All Others*	1.5	1.8	0.5	1.3	1.2	1.8	2.3

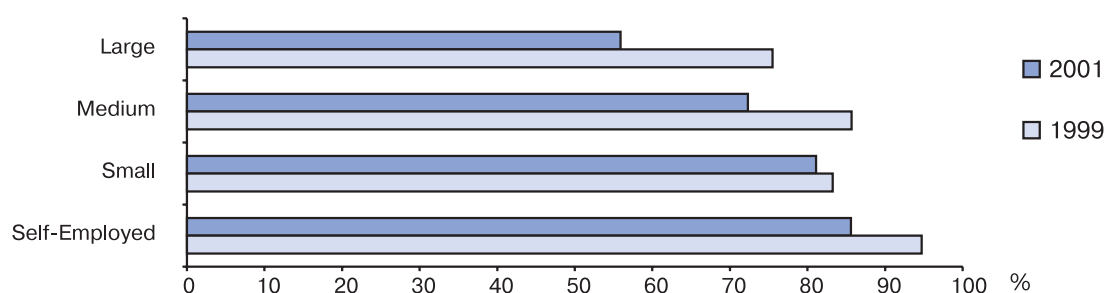
Note: * All Others includes Credit Unions, Leasing Companies, State Authorities, Suppliers, Customers, and Others.

Note, however, that most businesses reported that they had *not* tried to get a loan during this period. In particular:

- 82% of small firms
- 72% of medium-sized firms
- 56% of large companies.

There is a slight increase in the number of medium-sized and large firms trying to obtain credit in 2001, as compared to 1999 (*see Figure 3.14*).

Figure 3.14. Percent of Firms that Did Not Attempt to Receive Loan during the Last Six Months, by Firm Size, 1999 and 2001



Reasons for which businesses did not apply for loans/credits

Respondents gave several explanations for why they did not approach financial institutions for credits or loans. Most frequently cited reasons are presented below (*see Table 3.15*).

Table 3.15. Reasons Businesses Did Not Apply for Loans, 2001 (percentage)

Which Institutions Did You Apply To?	Self-employed	FIRM SIZE					
		Small				Medium	Large
		1-5	6-10	11-50	Average		
No need	53.2	42.2	43.6	40.6	43.9	34.1	38.6
High interest rates	16.6	25.6	25.8	29.7	25.5	34.2	34.6
Burdensome collateral requirements	10.6	20.6	20.0	13.9	16.2	17.2	15.3
Did not want additional liabilities for enterprise	12.4	25.1	25.8	26.3	23.4	31.4	28.3
Own resources are sufficient	1.8	2.8	4.5	4.2	3.5	3.2	3.2
Wary of banks	2.9	2.3	3.0	1.4	2.2	1.3	1.1
Friends and family have enough lending capital	9.1	2.3	0.4	0.8	2.5	—	0.4

**Note:* Respondents could choose more than one options of answer, therefore the total of each column may not necessarily total 100%.

The table indicates that most businesses reported that they saw no need to obtaining credit resources – during that particular 6-month period. This was the most frequently cited reason among the following groups:

- self-employed businesses – 53%
- small firms – 44%
- medium-sized firms – 34%
- large businesses – 39%.

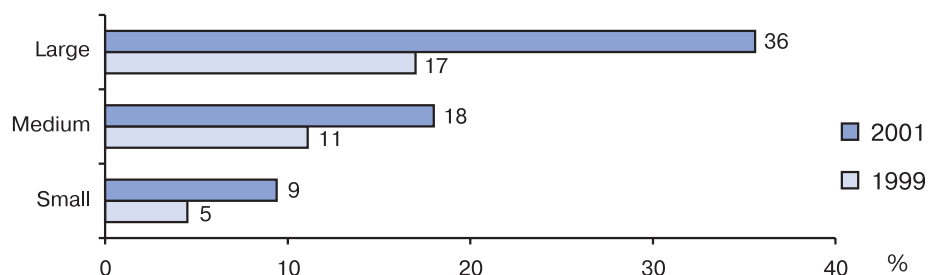
However there are two important qualifications. First, this does not tell us whether the firm had received a loan prior to the six-month period in question, or whether they intended to in the subsequent six months. It may well be the case that firms reported that they had no need *during that time frame*. In order to understand, then, what prevents firms from seeking formal loans when they need them, it is important to look at the responses of those who identified a need, and yet did not apply. (Indeed, the table above shows that only 3% of the respondents believed that their own resources were sufficient. Conversely, 97% did *not* believe their own resources were sufficient). To understand, then, we have to look further at other responses provided. The second two most frequently cited reasons by respondents for not applying for loan were high interest rates and burdensome collateral requirements – which is consistent with other recent surveys regarding access to loans. Responses about additional liabilities may speak more to perceptions of the impact of high interest rates and collateral requirements, and about concerns of the firm's growth rate.

How many businesses succeeded in obtaining loan/credit?

Figure 3.16 demonstrates that the number of businesses who successfully received financing, from among those actively seeking loans, doubled between 1999 and 2001:

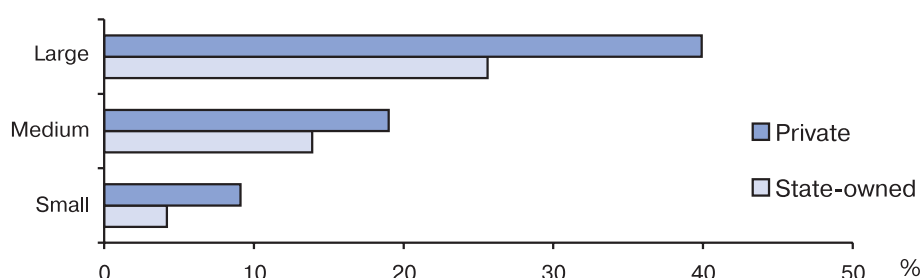
- for large businesses from 17 to 36%
- for medium-sized from 11 to 18%
- for small from 5 to 9%

Figure 3.16. Percentage of Firms that were Successful in Getting Loans During the Past Six Months, 2001 and 1999



The portion of private businesses that applied for funding and had their loan applications approved was larger than the portion of state-owned businesses (*see Figure 3.17*). Almost 40 percent of large private businesses received loans during the six months period in 2001. Only 25 percent of large state-owned firms received loans. More than nine percent of small private businesses received loans while only four percent of small state enterprises received loans.

Figure 3.17. Percent of Firms Receiving Loans, State and Private, 2001



The regional distribution of responses given by businesses that obtained credit or loans is presented in *Table 3.18*, below. Oblasts with the largest number of businesses succeeding in obtaining credit/loan are highlighted in the table.

Table 3.18. Percentage of Firms that Successfully Obtained Credit, 2001

Oblasts	Self-employed	Small	Medium	Large
Crimea	3.1	10.9	12.1	36.0
Kyiv City	3.6	10.2	21.3	44.7
Kyiv oblast	5.9	6.1	26.7	38.5
Vinnitsia	16.7	12.1	15.6	27.8
Volyn	25.0	22.5	40.0	53.3
Dnipropetrovsk	9.1	8.6	17.2	34.9
Donetsk	7.7	6.3	14.8	27.5
Zhytomyr	12.5	13.9	16.7	46.2
Zakarpattia	2.8	16.7	20.8	50.0
Zaporizhzhya	—	7.6	21.6	30.2
Ivano-Frankivsk	—	5.8	24.1	40.0
Kirovohrad	12.0	11.3	4.2	27.8
Luhansk	5.9	8.8	11.9	33.3
Lviv	4.4	9.4	19.0	29.2
Mykolayiv	—	4.3	24.6	47.1
Odessa	11.1	8.0	18.6	42.9
Poltava	13.6	8.0	10.5	22.2
Rivne	7.7	11.0	22.0	50.0
Sumy	16.7	6.8	20.8	51.7
Ternopil	2.9	3.3	17.4	15.4
Kharkiv	—	5.2	21.0	32.8
Kherson	13.3	16.9	10.7	33.3
Khmelnitsky	15.4	11.8	13.8	65.0
Cherkasy	—	10.5	16.3	43.6
Chernitsi	—	15.4	7.7	11.1
Chernihiv	28.6	18.2	25.9	40.9
AVERAGE	6.5	9.4	18.0	35.6

E. MAIN OBSTACLES TO GROWTH

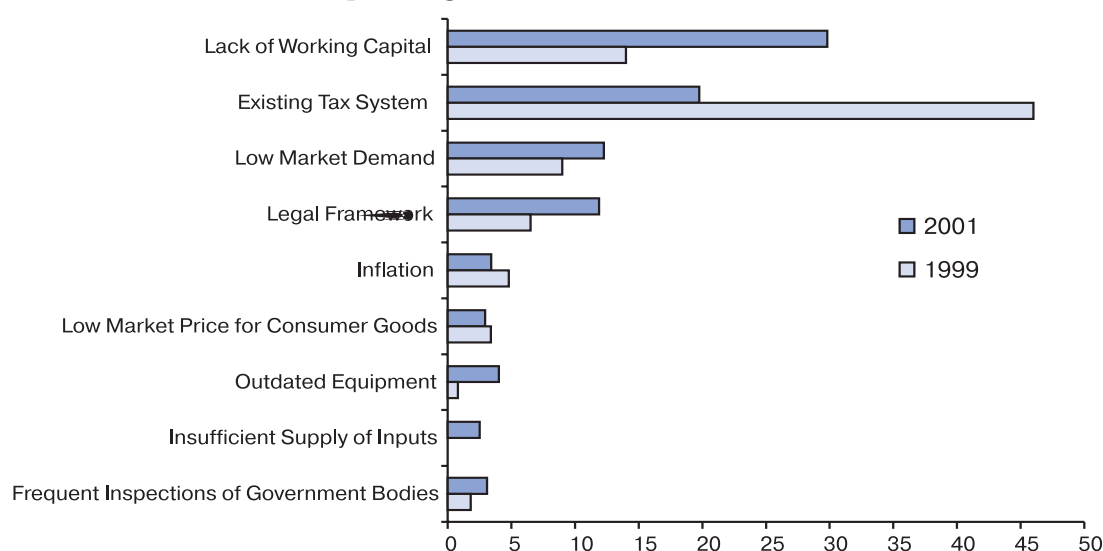
In the course of the survey, respondents were asked to select from a list of problems the one major obstacle that impedes their business. In 1999, businesses pointed at the existing taxation system as the biggest obstacle to growth of their companies. Nearly half of businesses shared this opinion. In 2001, the lack of working capital moved to the top of the list, while taxation was the second most frequently cited problem (see Figure 3.19). The number of those that complained of a lack of working capital grew by 15-20% against the 1999 level. The number of businesses that quoted taxation as the most serious problem decreased by almost half, to less than 20%.

This is an important shift because it reflects change in the nature of the problems facing Ukrainian businesses. The greatest obstacles mentioned in 2001 are those that will hamper the growth and development of business. In 1999, problems had more to do with the survival of enterprises' in an unstable economic environment.

The high ranking of lack of working capital demonstrates how businesses approach growth opportunities on the one hand, and how they are unable to use these opportunities in view of their current capital structure on the other hand. Four other problems listed among nine major ones are also directly tied to growth opportunities. Two of those – obsolete equipment, upgrading that equipment, and an insufficient supply of raw material were of secondary importance in 1999 but became much more significant in 2001. The problem of outdated equipment came to the front, particularly for large and medium-sized businesses. This reflects how the state of affairs has developed over the last decade, from a time when the level of investment and reinvestment in production fixed assets was negligible. The other two problems related to growth have to do with legislation and supervision on the part of government bodies. While the first problem arose because few effective efforts had been made to improve the legislative framework for businesses, the other was caused by persistent state interference which resulted in the need for businesses to spend time and money to obtain permits and deal with inspections. Additional problems are connected to poor access to a competitive capital market. Import restrictions and the cost of importing necessary equipment and raw materials were also mentioned.

The inability of legislative power to handle issues and pass resolutions, which would facilitate the growth of enterprises, is perceived to be more serious in 2001 than in 1999.

Figure 3.19. Major Obstacles to Operating a Business, Percent of Firms, 1999 and 2001*



Note:* In the course of the survey, some other problems were revealed including: difficulties obtaining credit, high interest rates, availability and cost of labor force; but by the number of responses, these problems may not be considered to be equally important for all businesses.

Low market demand remains as important an issue for many businesses as low market prices for industrial goods. Low demand and low prices do influence business growth, however, more firms are coming to understand that in order to be more efficient in the market they need to improve the quality of their goods and services. Ukrainian enterprises continue to struggle in the face of both production problems and the issues of design and distribution of goods. These must be addressed if entrepreneurs hope to reach more customers.

BUSINESS DEVELOPMENT STRATEGY

A. ACTIVITIES TO IMPROVE EFFICIENCY

The findings of the survey demonstrate that the majority of businesses are not likely to use modern efficiency boosting techniques, like business planning, developing a marketing plan, market research, or working with independent consultants. This is particularly true for the self-employed and small firms.

Business owners are not likely to plan their future operations. Only one fourth of the surveyed small businesses, half of medium-sized, and two thirds of large firms have fully developed business plans (*see Table 4.1*). An even smaller portion of firms prepared marketing plans:

- 14 % of small companies
- 28% of medium companies
- 43% of large companies

An alarming symptom is that in 2001, the proportion of enterprises conducting market research, applying for financial resources, and using the assistance of external consultants, decreased compared to 1999. The only increases in the entire table are for medium and large firms, for developing business plans and marketing plans. In all other areas, the figures decreased.

Table 4.1. Percent of Businesses Reporting Usage of Efficiency-Boosting Techniques, 2001

Type of Activity	Year	Self-employed	FIRM SIZE					
			Small				Medium	Large
			1-5	6-10	11-50	Average		
Business Plan Development	1999	15.5	21.1	27.5	33.5	27.9	47.3	60.9
	2001	4.2	21.1	26.5	35.9	24.8	50.8	67.3
Marketing Plan Development	1999	6.0	13.8	17.6	20.1	17.1	26.2	36.1
	2001	2.1	14.9	15.1	18.3	14.0	28.1	43.8
Marketing Research	1999	12.9	28.6	38.4	35.6	33.3	41.3	47.4
	2001	3.4	20.8	24.2	25.0	20.1	30.5	46.3
Developing Applications for Financial Resources	1999	6.9	14.8	18.2	21.9	18.4	33.8	46.1
	2001	1.1	8.3	11.3	15.0	10.2	26.0	37.4
Working With Business Consultants on a Fee Basis	1999	7.8	10.6	15.9	14.4	13.4	17.9	22.6
	2001	0.2	5.1	5.3	10.9	6.5	12.6	20.7

The distribution of businesses engaged in business planning activity, by region, is presented in *Table 4.2*, below.

Table 4.2. Percent of Businesses Reporting They Had Business Plans, 2001

Oblasts	Small	Medium	Large
Crimea	43.0	55.2	56.0
Kyiv City	37.4	59.2	72.4
Kyiv oblast	42.4	33.3	84.6
Vinnytsia	33.3	51.1	88.9
Volyn	15.0	40.0	60.0
Dnipropetrovsk	36.5	58.1	68.6
Donetsk	29.7	53.4	72.5
Zhytomyr	30.0	23.3	76.9
Zakarpattia	6.3	33.3	58.3
Zaporizhzhya	27.2	54.1	79.2
Ivano-Frankivsk	29.0	41.4	64.0
Kirovohrad	28.3	58.3	66.7
Luhansk	23.9	38.1	33.3
Lviv	31.4	54.0	52.8
Mykolayiv	20.0	41.4	82.4
Odessa	31.0	67.4	74.3
Poltava	13.3	28.9	27.8
Rivne	20.5	43.3	66.7
Sumy	18.6	70.8	89.7
Ternopil	5.0	47.8	30.8
Kharkiv	28.0	60.0	84.4
Kherson	23.4	50.0	72.2
Khmelnitsky	31.4	34.5	90.0
Cherkasy	38.6	48.6	72.0
Chernivtsi	30.8	84.6	77.8
Chernihiv	14.5	29.6	63.6
AVERAGE	29.0	50.8	67.3

As may be observed from the table, firms that were most likely to have business plans are concentrated in the following regions: The Autonomous Republic of Crimea, Kyiv City and oblast, Vinnytsia, Mykolayiv, Odessa, Sumy, Khmelnytsky, Cherkasy and Chernivtsi oblasts. These oblasts are highlighted in the table.

B. STAFF TRAINING

In 2001, an insignificant portion of respondents sought to improve their business management practices through various training programs and business consultations. Only 3% of small, 10% of medium and 15% of large companies reported receiving training on a variety of aspects of running and managing a business (*see Table 4.3*). Even though the proportion of firms that conducted business training for staff was negligible, there is a positive tendency toward growth for both large and medium companies, whereas small firms were less likely to order training for staff in 2001.

It is important to note that the demand for external consultancy tends to exceed the demand for special business training. A possible explanation is that firms believe that receiving advice is less time-consuming and more targeted than training.

Table 4.3. Percent of Firms Reporting Staff Training and Use of Outside Consultants, 2001 and 1999

Type of Activity	Year	FIRM SIZE					
		Small				Medium	Large
		1-5	6-10	11-50	Average		
Training	1999	2.4	4.7	6.4	4.8	7.6	13.0
	2001	2.1	2.7	5.2	3.2	10.2	14.7
Consultations	1999	3.8	7.6	7.6	6.3	8.6	13.1
	2001	2.4	3.6	8.4	4.7	11.6	16.0

C. BUSINESS ASSOCIATION MEMBERSHIP

Membership in a business association is rare in Ukraine. A miniscule number of businesses indicate that they belong to any business associations at the local, regional, or national level. The highest percentage is found among large businesses: 6.6% of them are members of oblast associations and 6.2% belong to national-level associations. As would be reasonable to expect, medium and larger businesses are more likely to belong to some sort of association, but the great majority of these businesses, more than 80 per cent, indicate that they are not active in any association (*see Table 4.4*).

Table 4.4. Percent of Firms Reporting Membership in a Business Association, 2001

Type of Organization	Self-employed	FIRM SIZE		
		Small	Medium	Large
District Business Association	0.2	0.7	1.2	1.8
City Business Association	0.4	1.1	2.9	4.8
Oblast Business Association	0.2	1.3	3.3	6.6
National Business Association	0.2	1.1	3.7	6.2
Local Chamber of Commerce – 1999	0.9	3.0	6.9	15.0
Local Chamber of Commerce – 2001	0.2	2.3	8.5	19.3

When comparing 1999 and 2001 rosters, membership of medium and large businesses increased in local chambers of commerce, while the membership of small firms decreased.

Reasons for belonging to a business organization

The most frequently cited reasons for membership in a business association included obtaining information on market development (cited by almost 40% of small and an even higher percentage of medium and large firms,) establishment of business contacts (mentioned by half of small and medium firms and by 60 percent of large businesses,) and assistance with legislative issues (*see Table 4.5*). These findings are similar to the reasons identified by most businesses in developed market economies.

Table 4.5. Benefits of Membership in Business Associations, percent of Businesses, 2001

Type of Benefit	FIRM SIZE		
	Small	Medium	Large
Information on Market Development	39.4	45.8	54.9
Establishment of Business Contacts	49.2	51.6	59.0
Assistance in Working with Legislative Documents	28.6	30.3	35.4
Contacts with Authorities	20.1	24.8	28.0
Protection of Entrepreneurial Rights	18.1	19.0	19.8
Training	16.7	15.2	13.4
Access to Internet	2.0	0.6	2.4
No Benefits	22.1	17.2	12.0

Reasons for not belonging to a business association

Respondents that indicated they did not belong to a business association were asked to explain why they chose not to join. The predominant reason given was “it is not yet necessary to belong to an association”. 54% of small firms and about 40% of medium and large businesses held this opinion. Other reasons for not belonging to an association are shown in *Table 4.6*, below.

Table 4.6. Why Businesses Are Not Members of a Business Association, 2001 (percent)

Reasons for Non-Participation	FIRM SIZE		
	Small	Medium	Large
There are no business associations in my district	3.7	5.1	5.5
Know nothing about business associations	15.3	11.2	6.9
Membership in business associations has no benefit	12.6	16.5	13.6
Dues are too high	5.8	9.5	4.6
Had a bad experience in membership	0.7	1.2	0.4
It is not yet necessary	54.1	39.7	36.7

The second most frequently cited reason for non-membership is that there is no reason for belonging to associations since the associations are of no use to member businesses.

The regional distribution of answers given by respondents indicating it was not yet necessary to belong to a business association is presented in *Table 4.7*, below. Kharkiv, Sumy and Chernigiv oblasts rank highest by the portion of small firms believing there was no need to belong to business organizations; for medium businesses, those were Chernigiv, Zhytomyr and Luhansk oblasts; for large firms, Poltava, Donetsk and Lviv oblasts.

Table 4.7. Distribution of Respondents, Believing It Is Not Necessary to Belong to An Association, 2001

Oblast	Small	Medium	Large
Crimea	50.0	37.9	32.0
Kiev City	57.3	34.6	39.5
Kiev oblast	57.6	20.0	30.8
Vinnitsia	42.4	31.1	27.8
Volyn	50.0	40.0	6.7
Dnipropetrovsk	46.8	31.2	33.7
Donetsk	51.8	54.5	50.7
Zhytomyr	70.0	60.0	34.6
Zakarpattia	47.9	25.0	33.3
Zaporizhzhya	32.6	16.2	11.3
Ivano-Frankivsk	56.5	37.9	24.0
Kirovohrad	47.2	29.2	27.8
Luhansk	50.4	57.1	36.5
Lviv	57.9	33.3	48.6
Mykolayiv	33.3	41.4	41.2
Odessa	47.8	32.6	25.7
Poltava	61.3	50.0	58.3
Rivne	61.6	36.7	16.7
Sumy	74.6	41.7	41.4
Ternopil	60.0	34.8	30.8
Kharkiv	76.2	45.7	42.2
Kherson	66.2	46.4	38.9
Khmelnitskiy	29.4	37.9	25.0
Cherkasy	45.6	45.7	16.0
Chernivtsi	35.9	46.2	33.3
Chernihiv	72.7	63.0	36.4
AVERAGE	54.1	39.7	36.7

D. USAGE OF THE INTERNET

One of the new areas explored in the 2001 survey of business in the Ukraine is the use of the Internet. A series of questions was asked which covered use of the Internet, access to the Internet, frequency of use, and the business purposes for using the Internet.

40% of all respondents in 2001 used Internet opportunities in their business operations (*see Table 4.8*).

Table 4.8. Percent of Firms Reporting Usage of the Internet, 2001

Self-employed	FIRM SIZE					
	Small				Medium	Large
	1-5	6-10	11-50	Average		
41.7	46.8	43.1	39.6	42.1	30.0	48.5

Frequency of Use

Table 4.9 demonstrates how often respondents accessed the Internet. Over 70% of respondents indicated they use the Internet daily or several times a week.

Table 4.9. Frequency of Use of the Internet, 2001 (percent)

Frequency	Self-employed	FIRM SIZE				Medium	Large
		Small					
		1-5	6-10	11-50	Average		
Daily or Several Times per Week	40.0	71.1	77.4	78.8	75.5	71.1	74.4
Not More Than Once per Week	20.0	14.8	11.0	10.3	11.8	14.8	14.7
Several Times Per Month	40.0	10.6	8.2	7.7	9.4	7.4	7.8
Once Per Month	—	2.8	2.1	2.9	2.6	4.3	1.7

Which tasks businesses accomplish by using the Internet

The majority of businesses with access to Internet are most likely to use it for e-mail and to search for information. Small private firms use the Internet more intensively than their state counterparts, to search for specialized information, and surprisingly both medium and large state enterprises report usage slightly more frequently than comparable private businesses (*see Table 4.10*).

Table 4.10. What Tasks Firm Accomplish Using the Internet, 2001 (percent)

	TYPE OF OWNER	FIRM SIZE		
		Small	Medium	Large
Communications, Email	State	47.8	73.9	75.9
	Private	73.6	65.4	67.3
Search for Specialized Information	State	69.6	78.3	81.3
	Private	78.9	75.4	78.0
Transactions, Sales, Purchases	State	26.1	19.6	24.1
	Private	20.9	20.9	25.8
Search for Partners	State	43.5	32.6	51.8
	Private	45.0	46.0	60.1
Consulting Services	State	—	4.3	9.8
	Private	8.4	10.0	14.8
E-Learning	State	4.3	10.9	6.3
	Private	10.2	13.7	11.6
General Research	State	13.0	17.4	17.9
	Private	21.4	17.1	20.4
Other	State	—	—	0.9
	Private	1.8	0.9	0.9

Small and Medium Enterprise (SME) Survey – Summary Report

The regional distribution of Internet users is presented in *Table 4.11*, below. As may be observed, the intensity of Internet usage varies from region to region: from 13 and 15% for small businesses in Volyn and Cherkasy oblasts respectively, to 78% for large companies in Rivne oblasts.

Table 4.11. Use of the Internet, 2001 (percent of firms)

Oblast	Small	Medium	Large
Crimea	37.3	33.3	44.0
Kyiv City	51.1	41.5	63.2
Kyiv oblast	22.2	8.3	46.2
Vinnitsia	52.4	36.4	37.5
Volyn	13.3	43.8	60.0
Dnipropetrovsk	43.2	29.9	46.5
Donetsk	45.6	35.8	34.1
Zhytomyr	23.5	25.0	50.0
Zakarpattia	33.3	53.8	50.0
Zaporizhzhya	44.1	16.7	53.1
Ivano-Frankivsk	42.1	37.5	39.1
Kirovohrad	36.4	35.3	29.4
Luhansk	51.0	17.2	38.6
Lviv	50.7	28.6	44.1
Mykolayiv	51.2	30.4	73.3
Odessa	42.9	45.7	57.6
Poltava	48.4	23.3	54.5
Rivne	42.9	20.0	77.8
Sumy	19.4	—	59.3
Ternopil	26.7	30.8	40.0
Kharkiv	25.5	23.8	50.0
Kherson	51.6	28.6	46.7
Khmelnitsky	58.8	13.0	65.0
Cherkasy	15.2	25.0	66.7
Chernitsi	33.3	30.0	66.7
Chernihiv	38.7	13.0	42.1
AVERAGE	42.1	30.0	48.5

SURVEY METHODOLOGY

The 2001 survey sample was based on Ukrainian profit-oriented enterprises, excluding the farming industry. The survey was conducted in 24 oblasts of Ukraine, the Autonomous Republic of the Crimea and the city of Kiev. The fieldwork was carried out from April 23rd to July 10th, 2001.

The main sources for developing the sample were:

- a) A listing of registered enterprises from the State Statistics Committee database, which was used for the survey of enterprises; and
- b) A representative survey of individuals at their places of residence, with the purpose of forecasting employment¹ and the survey of individual entrepreneurs.

The sample structure was developed based on a stratified random sampling method and included a total of 5,096 respondents:

Individual entrepreneurs (self-employed)	528
Enterprises with 1 to 5 employees	712
Enterprises with 6 to 10 employees	661
Enterprises with 11 to 50 employees	1164
Enterprises with 51 to 250 employees	1087
Enterprises with more than 250 employees	994

The use of such a sample structure allowed for a sufficient number of medium and large enterprises, so that a comparison with small businesses could be made.

The documents used during the survey included the following an *enterprise questionnaire* and a *household questionnaire*.

The *enterprise questionnaire* for businesses included 5 main sections:

- Section 1 – general information about the enterprise (name, form of ownership, type of business)
- Section 2 – information about enterprise's workforce (number of employees, employee turnover in the last 6 months, wage arrears, etc)
- Section 3 – information about relations between the enterprise and the state (registration and licensing procedures, time required for registration or licensing, number of inspections by government agencies, etc)
- Section 4 – economic indicators of the enterprise's activity
- Section 5 – the enterprises' need for consulting services and technical training; participation in organizations of entrepreneurs.

The household questionnaire was conducted for a sample that included 202 communities in 24 oblasts of Ukraine as well as the Autonomous Republic of the Crimea. This questionnaire was conducted in 91 towns, 26 urban-type communities and 85 villages². Household interviews covered members of the selected families aged over 15.

A separate questionnaire was used to survey households – the Register of working family members containing social and demographic data on all family members aged over 15 as well as their employment (a hired employee, self-employed or an employer). For hired employees (wageworkers) an abridged version of the questionnaire was used. The abridged version contained only those questions about the enterprise (employer) to which the respondent could give a precise answer (number of employees, type of business the enterprise is engaged in, form of ownership). In contrast, individual entrepreneurs and employers were surveyed as entrepreneurs, by utilizing the first questionnaire for enterprises.

¹ A detailed version of the survey methodology can be found in the full-length 2001 research report – a shorter version is included here in this Summary Report. More detailed information on the forecasting methodology, as well as other methodological question, is available upon request from the BIZPRO office.

² The sample represents the population of Ukraine permanently residing in the country, excluding those drafted into the military, imprisoned or hospitalized.

DEMOGRAPHICS OF BUSINESS IN UKRAINE

Estimated employment levels by economic sectors and firm size, 1999 and 2001

Industry	Year	Self-employed	FIRM SIZE						
			Small				Medium	Large	TOTAL
			1-5	6-10	11-50	Total Small			
Construction	1999	205,135	38,411	94,209	509,630	642,250	1,102,902	1,117,330	3,067,616
	2001	104,233	48,103	104,938	607,944	760,985	837,280	1,160,117	2,862,614
Manufacturing and Agribusiness	1999	326,350	88,277	123,446	613,088	824,811	1,518,345	5,616,849	8,286,356
	2001	69,489	80,479	153,568	742,560	976,607	1,385,962	5,699,304	8,131,382
Transport and Communication	1999	121,216	26,955	22,740	141,777	191,472	385,769	1,238,123	1,936,578
	2001	66,180	34,227	48,630	191,068	273,925	410,511	773,411	1,524,027
Trade	1999	1,095,605	303,241	402,823	1,199,354	1,905,418	598,436	674,425	4,273,883
	2001	661,798	397,771	465,822	1,207,203	2,070,796	503,994	644,509	3,881,097
Public Catering	1999	23,311	20,216	55,226	195,422	270,864	123,644	10,066	427,884
	2001	38,053	34,227	57,588	199,753	291,568	60,967	46,036	436,624
Finance, Insurance and Real Estate	1999	23,311	14,151	20,574	65,141	99,866	79,132	211,387	413,696
	2001	6,618	28,677	38,392	104,219	171,288	69,096	184,146	431,147
Service	1999	384,627	134,100	282,626	927,296	1,344,022	885,289	946,208	3,560,146
	2001	711,432	302,491	409,514	1,289,719	2,001,724	796,635	699,753	4,209,535
TOTAL	1999	2,179,555	625,350	1,001,643	3,651,707	5,278,700	4,693,517	9,814,387	21,966,159
	2001	1,657,803	925,974	1,278,451	4,342,458	6,546,883	4,064,464	9,207,276	21,476,426

INVESTMENT

Percent of Firms Reporting Total Expenditures For Purchase or Lease of Additional Production Capital During Previous 12-month period

Hrvnya	Year	FIRM SIZE		
		Small	Medium	Large
Up to 500	1999	7.0	0.3	—
	2001	4.0	—	—
501–1 000	1999	8.6	2.3	0.3
	2001	7.0	1.5	0.3
1 001–2 000	1999	7.7	1.3	0.6
	2001	9.0	2.6	0.2
2 001–5 000	1999	17.5	7.0	1.8
	2001	15.8	6.1	2.5
5 001–10 000	1999	17.7	6.7	4.0
	2001	14.4	6.3	3.9
10 001–25 000	1999	19.6	23.1	11.9
	2001	14.3	14.3	4.2
25 001–50 000	1999	8.8	13.7	12.2
	2001	7.6	14.9	5.9
50 001–100 000	1999	6.6	16.7	13.4
	2001	5.5	15.4	14.7
100 001–500 000	1999	5.7	20.7	26.8
	2001	6.6	19.3	23.6
Over 500 000	1999	0.9	8.0	29.0
	2001	0.2	5.9	27.4
Hard to Say	1999	—	—	—
	2001	6.7	4.6	6.9
Refused to Answer	1999	—	—	—
	2001	8.8	8.9	10.3

APPENDICES

INSPECTIONS BY STATE AGENCIES

*Average Number of Inspections During Six-Month Period Prior to the Survey,
By Form of Ownership, 1999 and 2001.*

Form of Ownership	Self employed	FIRM SIZE				
		Small			Medium	Large
		1-5	6-10	11-50	51-250	251 or More
All Enterprises	2.0	3.5	5.6	6.8	10.1	16.8
State	—	3.8	2.9	5.9	10.8	19.4
Private	2.0	3.5	5.8	6.9	10.0	15.6

ACCESS TO FINANCIAL RESOURCES

Percent of Firms Reporting They Tried to Get a Credit/Loan during Last Six Months, by Employment Size of Firms, 2001

Which Institutions Did You Apply To?	Ownership	FIRM SIZE		
		Small 1-50 Employees	Medium 51-250 Employees	Large Over 251 Employees
Bank	State	8.9	20.4	32.8
	Private	14.1	26.9	46.0
Credit Union	State	—	—	—
	Private	0.4	—	0.3
Leasing Companies	State	—	—	—
	Private	—	0.1	0.3
Authorities City	State	—	—	1.0
	Private	0.1	0.5	0.3
Authorities Rayon	State	—	—	—
	Private	0.1	0.5	—
Authorities Oblast	State	—	0.4	0.7
	Private	0.1	0.1	—
Authorities Central Level	State	—	0.9	1.4
	Private	0.1	—	0.5
Your Supplier	State	0.5	—	0.3
	Private	0.3	0.3	0.6
Your Customers	State	0.5	0.4	0.3
	Private	0.2	0.1	0.5
Family, Friends, Acquaintances	State	0.5	—	—
	Private	3.1	0.3	—
Other	State	1.0	0.4	1.0
	Private	0.3	0.5	0.6
DID NOT TRY TO OBTAIN LOAN	State	88.5	77.8	64.5
	Private	81.6	70.9	51.9

NOTES

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.